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Proceedings. v. 12-13, 1945.

1945

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XVII
Canada: Co-operatives, Royal Commission

ROYAL COMMISSION
ON
CO-OPERATIVES

1945

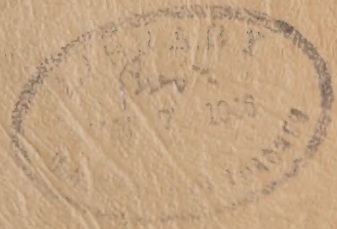
PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. XII

PLACE Halifax, Nova Scotia

DATE March 5, 6, 7, 1945

PAGES 4251 - 4611



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Halifax, N. S., March 5, 6, 7, 1945

VOLUME XII

(Pages 4251 - 4611)

<u>C O N T E N T S</u>	<u>Page</u>
Inspector of Co-operative Associations, Province of Nova Scotia R. J. MacSween Examined by Mr. Parker	4252
Nova Scotia Co-operative Union Alexander S. McIntyre, Educational Director Examined by Mr. Francis (brief 4264) Mr. Parker	4262, 4352 4303
British Canadian Co-operative Neil MacDonald, President Examined by Mr. Francis	4353
Arnold Co-operative Housing Corporation Joseph Laben, Director (brief 4379) Examined by Mr. Francis Mr. Parker	4369 4372 4376, 4382
United Maritime Fishermen J. H. MacKichan, General Manager Examined by Mr. Francis (brief 4390) Mr. Parker	4389 4409
Rev. J. Forest, St. Francis Xavier Extension Dept. Examined by Mr. Francis	4432
Reed Sangster, St. Francis Xavier Extension Dept. Examined by Mr. Francis	4439
Marcel Dentremont, Examined by Mr. Francis Mr. Parker	4443, 4449 4447
Nova Scotia Credit Union League Rev. J. D. Nelson MacDonald, President Examined by Mr. Francis (brief 4452) Mr. Parker	4450, 4461 4473
Halifax Board of Trade Donald McInnes, Counsel (brief 4495)	4494
Creameries and Dairies in Nova Scotia -- Certain Independent Operators, Corporate and Individual C. B. Smith, Counsel, brief	4537

C O N T E N T S (cont'd):Page

Brookfield Creamery Limited		
R. B. McLennan, President		
Examined by Mr. Smith		4548
Mr. Francis		4548
Milliken		4567
Joint Stock Insurance Companies -- Certain		
Insurance Agents representing		
Donald McInnes, Counsel, brief		4568
St. Francis Xavier Extension Department		
Rev. M. M. Coady		
Examined by Mr. Parker	4605,	4571

.....

Halifax, Nova Scotia, March 5-7, 1945

VOLUME XII

<u>ALPHABETICAL INDEX</u>	<u>Page</u>
Arnold Co-operative Housing Corporation	4369
British Canadian Co-operative	4253
Brookfield Creamery Limited, Nova Scotia	4548
Coady, Rev. M. M. -- St. Francis Xavier Extension Department	4605
Co-operative Associations, Nova Scotia, Inspector	4252
Creameries and Dairies, Nova Scotia, Indp. Operators	4537
Dentremont, Marcel -- United Maritime Fishermen	4445
Forest, Rev. J., St. Francis Xavier Extension Department -- United Maritime Fishermen	4432
Halifax Board of Trade	4494
Independent Operators, Creameries and Dairies, N.S.	4537
Inspector of Co-operative Associations, N. S.	4252
Joint Stock Insurance Companies, Nova Scotia	4548
Leban, Joseph -- Arnold Co-operative Housing Corp.	4372
MacDonald, Rev. J. D. Nelson -- Nova Scotia Credit Union League	4450
MacDonald, Neil -- British Canadian Co-operative	4353
MacSween, R. J. -- Inspector of Co-operative Assocs.	4252
McIntyre, A. S. -- Educational Director, Nova Scotia Co-operative Union	4262
McInnes, Donald Halifax Board of Trade	4494
Joint Stock Insurance Companies, Nova Scotia	4568
MacKichan, J. H. -- United Maritime Fishermen	4389
McLennan, R. B. -- Brookfield Creamery Limited	4548
Nova Scotia Co-operative Union	4361
Nova Scotia Union League	4450

ALPHABETICAL INDEX (cont'd):Page

St. Francis Xavier Extension Department		
Coady, Rev. M. M.		4605
United Maritime Fishermen	4432,	4439
Sangster, Reed -- United Maritime Fishermen		4439
Smith, C. B. -- Creameries and Dairies, Independent Operators, Nova Scotia		4537
United Maritime Fishermen	4389, 4432, 4439,	4443

Sittings:

Monday morning		4251
Monday afternoon		4315
Tuesday morning		4369
Tuesday afternoon		4438
Wednesday morning		4494
Wednesday afternoon		4571

.....

The Commission appointed to inquire into the present position of Co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative positions of persons engaged in business directly competitive therewith, met in Halifax, Nova Scotia, on Monday, March 5, with sittings continuing on March 6 and 7, 1945.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON)	
G. A. ELLIOTT)	
J. M. NADEAU)	Commissioners
J. J. VAUGHAN)	

Eugene T. Parker, K. C.	Counsel
Major H. D. Woods)	Associate
J. A. Chapdelaine)	Registrars
Colonel G. W. Ross	Executive Secretary

APPEARANCES:

W. B. Francis	Group of Co-operative Associations
R. H. Milliken, J. C.	Saskatchewan Co-operatives
C. B. Smith	Independent Operators, Creameries and Dairies in Nova Scotia
Donald McInnes	Halifax Board of Trade; Certain Insurance Agents representing Joint Stock Insurance Companies

Halifax, Nova Scotia,
March 5, 1945.

The Commission met at 10.00 a. m., Mr. Justice McDougall presiding.

THE CHAIRMAN: Gentlemen of the Bar and gentlemen, in opening the sessions of the Commission in Halifax, I think it is hardly necessary to read the terms of reference but I do ask that Counsel will adhere to the terms as laid down in the order in council, for that is essential to the prompt and efficient completion of the labours of the Commission. I hope that Counsel appearing before us will be guided by this observation.

It is no part of the mission with which we are entrusted to try any particular case or to make a ruling in regard to the tax liability of any person or organization. We shall endeavour merely to find the facts upon which an intelligent report may be delivered, leaving it to other authority to implement such recommendations as we may consider proper.

MR.FRANCIS: Mr. Chairman, I beg to announce that Mr. James G. Hackett, Barrister of the Nova Scotia Bar, will be associated with me on some of the briefs and Mr. Alexander D. McInnes of the Nova Scotia Bar will be with me on behalf of the Nova Scotia Credit Union League.

MR. PARKER: Mr. MacSween, the Government representative who has charge of certain reports of Government, will give formal evidence and he will be followed by the Nova Scotia Co-operative Union, who are ready to proceed. Then we shall take the Halifax Board of Trade and then the Arnold Co-operative Housing Corporation, then the United Maritime Fishermen, the Nova Scotia Credit Union League, the Nova Scotia Board of Insurance Underwriters, the St. Francis Xavier University submission and then the

Independent dairies. So far as I can anticipate, the Nova Scotia Co-operative Union will probably take some time and the Halifax Board of Trade will be prepared to go on immediately we are finished, unless Counsel has some objection to that order.

MR. FRANCIS: It is agreeable to us.

THE CHAIRMAN: You propose to take the Nova Scotia Co-operative Union first?

MR. PARKER: Yes, but I will call Mr. MacSween first.

R. J. MacSWEEN

Inspector of Co-operative Associations, having been duly sworn, testified as follows:_____

BY MR. PARKER:

Q. What position do you occupy with the provincial Government? A. Inspector of co-operative associations.

Q. That position is provided for under what act? A. Under chapter 7 of the acts of 1935, which is the Co-operative Associations Act.

Q. How long have you held that position? A. Since 1935.

Q. The co-operative institutions make certain reports to the department, to you as superintendent? A. Inspector.

Q. Under what department? A. The inspector of co-operative associations is under the department of Agriculture.

Q. You have produced certain statistics compiled from the reports? A. Yes. We compile a report every year, an annual report showing the volume of business, and other statistics in connection with co-operatives.

Q. The report that you have in your hand now was compiled by yourself from data supplied by various co-operative

associations? A. Yes. Under the provisions of the act every cooperative association is required to file an annual report within 30 days after the annual meeting and we compiled the report from that.

Q. Are you in a position to say whether these reports are pretty nearly 100 per cent, or do all the associations make a report, or are there quite a number of them who do not? A. Not 100 per cent, but I would say that probably 98 per cent or so report. There are usually two or three that fail to send in a report.

Q. What do you do to compel those two or three to comply? A. We get after them and ask them to furnish the required report and in no case so far have we been compelled to take any drastic action. It is usually a case of not having had their books audited on time.

Q. Is this the report that you compiled? A. Yes.

Q. In the material attached to the Nova Scotia Co-operative Union's brief there is a copy of this report. Is that correct? A. That is correct.

Q. Does Table I of that report give correctly the information which it purports to disclose there? A. Yes.

Q. Covering the years from 1936 to 1943 inclusive, showing the total business of cooperative associations yearly? A. That is right.

Q. And out of the lot you have segregated British Canadian and given its business separately? A. Yes. British Canadian is incorporated under a special act of its own and we have kept it separate.

Q. And you give other cooperative stores in the second column and you have given in a lump sum the fishermen's cooperative and in another miscellaneous cooperatives. What is included in the miscellaneous? A. In miscellaneous

we have one dairy organization, a milk distributing concern.

Q. Where is that? A. In Sydney, and another farmers' cooperative association that handles purely farmers' produce like feeds and so on. A third one is a creamery, the fourth one, the North Shore United Farmers, a somewhat similar farmers' organization handling feeds and fertilizers, and there is a small organization operating a threshing mill.

Q. Those you have named are listed and appear as table VIII in your report? A. Yes.

Q. That is what you have listed under miscellaneous in Table I? A. Yes.

Q. Table II of your report sets forth the membership, the current assets, the fixed assets, total assets, current liabilities, paid up capital, reserves, surplus and the net total worth respectively of the different societies listed there? A. Yes.

Q. Table III sets forth the membership, current and fixed assets and total assets, current liabilities, paid up capital, reserves, surplus and total net worth respectively of fishermen's cooperatives, and you give them individually. A. Yes.

Q. Table IV gives the same information respecting miscellaneous cooperatives -- that is the same list you have just spoken of? A. Yes.

Q. Table V is a summary of assets, liabilities and net worth of all co-operatives? A. Yes.

Q. Table VI gives a business analysis of cooperative stores showing total sales, gross trading margin -- what do you mean by gross trading margin? A. That is the margin on trading before deducting operating expenses.

Q. What is included in operating expenses? A. Well,

wages, fuel, light and supplies.

Q. Would it include anything set aside by way of reserves? A. In the operating expenses, yes; possibly it does. In some cases it does.

Q. Do you know? A. Yes, in some cases.

Q. In some cases reserves are included in operating expenses? A. Reserves for depreciation.

Q. But I mean statutory reserves, those provided by statute. A. Oh yes, I think so.

Q. I want you to be certain whether these tables are made up on that basis, that there are included in the operating costs, in addition to what we ordinarily understand as operating costs, certain reserves, statutory or otherwise, in addition to depreciation reserves. If you do not know we will get that information later. A. I don't think I can answer that positively.

Q. You will check that up later? A. Yes.

Q. And tell us to what extent that may be so? A. Yes.

Q. Operating expenses include payments back to members, commonly referred to as patronage dividends? A. No.

Q. The third column shows per cent of sales. What is that? Trading margin represents 22.5 per cent of gross sales? A. Yes. That is the per cent of sales.

Q. Then you have other income. Is that income from other than ordinary trading sources, such as investments? A. Yes, investments.

Q. Government grants? A. If there are any they will come under that. There is revenue from marketing operations. Some of these organizations carry on marketing.

Q. For other than its members? A. Not necessarily.

Q. How do they get anything from that? A. They may charge a commission or a percentage on marketing which

would not go in as ordinary trading revenue there.

Q. Do they do that in Nova Scotia to some extent? Do some of these societies charge a commission or fee for handling members' products? A. Yes.

Q. Would your files show which ones operate on that method? A. I don't think so.

Q. Where did you get that information, that some have income from commissions earned on products they handle? A. In the financial statements they turn in they show the volume of marketing operations, like marketing lambs or hogs or something else, and on the same statement is shown miscellaneous income, and I have taken the trouble to inquire in a good many cases what this miscellaneous income represents and they tell me it is revenue from marketing operations.

Q. In the next column again you have per cent sales. "Other income" represents .5 per cent of the total sales? A. Yes.

Q. Then you have total gross margin. That is a combination of gross trading margin plus other income? A. Yes.

Q. And you have operating expenses. I do not understand the difference between that column and gross trading margin. A. Operating expenses are deducted from the gross trading margin to arrive at the net.

Q. And again you carry that out to a per cent of sales? A. Yes.

Q. And finally you have net income, which is the second last column. How do you arrive at the heading for that? Is it income of these associations? A. That is the term they use in their statements.

Q. Is that almost universal? A. Yes.

Q. Is that the word used in the act in which they are called upon to show their income? A. I don't think it is worded in the act.

Q. I was wondering where that expression came from. A. In the act it says receipts, disbursements, assets and liabilities. It does not use the word income.

Q. Can you explain the use of that word used in there in the accounts of these associations, who I dare say will claim later on that they do not have income at all?

A. I don't know what prompted them to use that word.

Q. That has been the practice? A. That is the general practice, yes.

Q. Go on to the next Table VII. A. That is a continuation.

Q. We have there business analysis of fishermen's cooperatives. This is set up on the same basis as Table VI.

A. Yes.

Q. Table VIII is the one we have just dealt with, a similar analysis of miscellaneous cooperatives, and Table IX is a summary of cooperative business for the year 1943. You have British Canadian for a single year, that is the big one in the province, \$1,592,761.90. That represents their gross sales for the year? A. Yes.

Q. Their gross trading margin is \$359,725.26?

A. That is right.

Q. And their other income is \$9,492.93? A. Yes.

Q. Their net income is \$98,054.46? A. Yes.

Q. And again the word net income is used in the same sense and for the same reason as it is used in the breakdown? A. Yes.

Q. Then you have carried forward in the same way the totals of other cooperative stores, fishermen's cooperatives

and miscellaneous cooperatives? A. Yes.

Q. For the purposes of the record I would say that this shows that the total sales for the year were \$4,659,077.38; gross trading margin, \$860,253.64; net income \$237,713.42.

A. That is right.

Q. Can you tell me, if you have knowledge, whether any of these associations dealt with in this report file income tax returns -- I mean Dominion income tax. A. My belief is that they have.

Q. You have no knowledge? A. I would not be able to swear.

Q. Have they ever consulted with you on the question as to whether they ought to file returns? A. Yes.

Q. Have they as a rule done that or only one here and there? A. Well, one here and there. They usually consult their own auditors on that.

Q. What do they consult you about? Some have consulted you as to whether they should file income tax returns?

A. Yes.

Q. Have you given them advice? A. Yes.

Q. What is your advice? A. That they should file them.

Q. Do you know whether they acted on that advice?

A. I can't say.

Q. Have you any knowledge whether any of them have ever paid income tax since 1936? A. I cannot swear to that.

BY MR. ARNASON:

Q. These statistics do not refer to the operations of the farmers' fruit companies? A. No.

Q. Do they report to you? A. No.

Q. I suppose there are departmental statistics available

showing the extent of their operations as distinct from the privately owned fruit companies? A. I cannot say. They are not incorporated under this act and for that reason I would not know anything about them.

Q. Can you make inquiries of the department and get that information for us? A. Yes.

BY MR. PARKER:

Q. Will you speak to me tomorrow as to what information is available as to the so-called cooperative fruit companies. A. Yes.

Q. Perhaps the same question should be asked as to credit unions. Do they file reports with the Government? A. I don't know.

Q. Will you look that up? A. Yes.

Q. And the mutual fire insurance companies -- do they make returns? A. I cannot say.

Q. Will you inquire and speak to me about that? A. Yes.

BY MR. ELLIOTT:

Q. I understand that in some years a few cooperators do not get accounts in in time to be included in the report. A. Yes.

Q. In Table I, where you have given figures for quite a number of years, are the earlier years correct? Have you included the late ones in the earlier years and revised those figures when the late ones came in? A. No. I took the earlier years from the returns that have been made to us in that year.

Q. In Table VI, in connection with stores, that figure for total sales includes all payments received from customers for goods? A. Yes.

Q. It is not a net figure -- the patronage dividend

is not deducted from that? A. No.

Q. Coming on to the fishermen's cooperative in Table VII, the gross trading margin there, presumably, will be the difference between the total sales and the cost of the goods sold? A. Yes.

Q. Does that cost of goods sold include all payments or only initial payments? A. Initial payments in many cases.

Q. Do you know whether it includes subsequent payment as well? A. It may. I don't know what they do with it after I get my returns, but in some cases it may be an initial payment.

BY MR. ARNASON:

Q. You do not adjust your returns subsequently?
A. No.

BY MR. PARKER:

Q. You stopped with 1943; the 1944 reports are not in yet? A. No.

BY MR. NADEAU:

Q. Does your department assist cooperatives in making their financial statements? A. No.

BY MR. NOWLAN:

Q. The date of this cooperative act was 1935? A. Yes.

Q. What was the situation prior to that? A. Prior to that there was the Farmers' Fruit Produce and Warehouse Associations Act under which the United Fruit Growers were incorporated. There was a Fishermen's Co-operative Association Act and there was a Farmers Co-operative Associations Act.

Q. There was no general cooperatives act in 1935?
A. No.

Q. The Farmers Fruit Produce and Warehouse Associations

Act to which you refer, under which the United Fruit Company is set up, was passed back in 1912? A. Yes.

Q. It is under the old joint stock company set-up?

A. Yes.

Q. In other words, all these companies were organized on a capital basis before the cooperative act was inaugurated?

A. Yes.

BY MR. ELLIOTT:

Q. Will you find out for us what the cost of goods sold represents in the case of fishermen's cooperatives, whether it represents only initial payments or initial payments and some subsequent payments, or exactly what is included in it? Would it be possible in most cases to find that out? A. From my knowledge, in most cases it represents, or at any rate in the case of some associations it represents the total payment, that is after making payment on the current market price. In other words, there may be nothing left to pay later on. In some other cases the initial payment is only nominal. They make only a nominal initial payment and the subsequent payment may be quite large. It may be somewhat difficult to get that.

Q. Is the subsequent payment subtracted from total sales in order to obtain the gross trading margin as given in these figures? A. In these figures, yes.

Q. It is subtracted? A. Yes.

.....

Brief submitted by the Nova Scotia Co-operative Union.

MR. FRANCIS: We are appearing on behalf of this association, and I wish to make a brief statement. The submission to be made on behalf of the Nova Scotia Co-operative Union is fairly comprehensive, covering a rather

wide field, and it is but reasonable that personal knowledge of all the facts is not within the competence of any one person. Subject to your Lordship's ruling, what we propose to do is to call Mr. MacIntyre, who is the Director of the Union, to present the brief. I would explain, however, that Mr. MacIntyre is the Executive Officer and the word director in this case means educational director. It does not mean director in the ordinary sense. He is Educational Director and Executive Officer of the Union. Then we propose to support the brief by calling one further witness, the President of British Canadian Co-operative, the largest consumer cooperative in Canada. We have also available other officials who are competent to give the Commission any information it may desire. We do not intend to call them, however, unless the Commission requires information in addition to that which we shall offer. If, however, such information is found necessary we have competent witnesses available to furnish it.

MR. PARKER: Will my learned friend produce sufficient witnesses to verify substantially all statements of fact made in the brief?

MR. FRANCIS: Yes.

MR. PARKER: Otherwise they remain simply unverified statements.

MR. FRANCIS: Yes. That is what we suggest in the way of procedure.

ALEXANDER S. MacINTYRE

Educational Director of
the Nova Scotia Co-operative
Union, having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. You are the Educational Director of the Nova Scotia

Co-operative Union? A. Yes.

Q. Where do you have your office? A. In Antigonish.

Q. Are you also extension worker for St. Francis Xavier University? A. Yes.

Q. For how long a period have you held that position? A. About 12 years.

Q. How long have you held the position of Director of the Nova Scotia Co-operative Union? A. About 9 months, since July.

Q. For how long have you been interested in or associated with the cooperative movement in Nova Scotia? A. I have been a member of a cooperative society since 1918, about 27 years.

Q. I think it is common knowledge that there was very great cooperative development in the eastern counties of Nova Scotia. Will you tell the Commissioner whether or not you had an active part in that development? A. I was in charge of the work in Cape Breton county, particularly in the industrial centres in the early years until I was transferred to Antigonish about a year and a half ago.

Q. And you were actively engaged in that period in cooperative work? A. Yes.

Q. Will you explain to the Commission exactly what the Nova Scotia Co-operative Union is. A. The Nova Scotia Co-operative Union is a federation of cooperative societies in the province of Nova Scotia and carries on educational, promotional and supervisory work for the cooperatives.

Q. Does it engage in any trading activities? A. No trading activities.

Q. How many members are there on the board of directors? A. Nine members.

Q. Will you explain to the Commission how the brief

which you propose to read was prepared? A. This brief is the result of the joint effort of a committee appointed by the board of directors of the Nova Scotia Co-operative Union. There are various experts on that committee who are familiar with everything that is in the brief and they were appointed for that purpose.

Q. The committee having completed its work, which I presume it did, what was then done with its report? A. It was then submitted to the directors and approved by them.

Q. Are you authorized and instructed to present this brief on behalf of the union? A. Yes.

Q. Who is the President of the Nova Scotia Co-operative Union? A. The Rev. J. D. Nelson MacDonald.

MR. FRANCIS: It is proposed to have the President of the Co-operative Union of Nova Scotia present the brief on behalf of the credit unions inasmuch as he is also President of the Credit Union League; and, subject to the approval of the chair, it is proposed at that time that the Rev. Mr. MacDonald give supporting testimony to the general submission. Before this witness reads the brief I also wish to point out that there are a few passages in it, very few, which have come to the attention of the Commission at earlier sessions and those perhaps need not be read by the witness. Will you now proceed to read the brief, Mr. MacIntyre.

THE WITNESS: The brief is as follows:

"1. Conditions Prevailing Which Brought About the Establishment of Co-operatives.

"In Nova Scotia, the so-called prosperity of the "twenties" led the masses of the people to forget the dark days of the past; days in which the primary producers existed in poverty and misery, and industrial workers were subjected to periods of fairly steady employment -- to which

they referred to as "boom times" -- and, in between, periods of economic blackout when their towns became ghost-towns where no real human happiness could flourish. In their enthusiasm they could not visualize the possibility of darker days to come.

"In this frame of mind, the spectacular economic collapse of 1929 which ushered in the period commonly referred to as "the depression" was a severe shock. They saw conditions going from bad to worse to the extent that in the Spring of 1936 over one million people in Canada were dependent on Government resources for the maintenance of life. They saw prices to primary producers and the wages of labour forced to a disastrous minimum. There was bitter complaint of exploitation. Many of them had assumed financial obligations, such as buying a home or some other necessary asset, and now grimly looked forward to losing the equity that they had established in such undertaking. The feeling of insecurity and helplessness to control their own destiny became widespread. Is it any wonder that in this predicament they decided there must be something wrong with our economic set-up?

"Finally, the Federal Government, in an effort to get at the facts, appointed the Royal Commission on Price Spreads to examine the situation. The Commission's enquiry revealed unmistakable and ample evidence of widespread exploitation of wages to workers, primary producers and consumers, and that this exploitation was on a much more extensive scale than most Canadians realized. Their investigation also revealed that this condition was not entirely a by-product of the depression but had gone on unchecked, if not unchallenged, for many years. In this connection the following quotation from the Commission's report is of

interest:

'Unfair trade practices and other abuses, while they exist in prosperity, are nevertheless thrown into bold and challenging relief by a period of economic recession. It is then that they assume their most predatory and ruthless aspect. In good times the evils consequent upon unrestricted competition are more easily absorbed and less evident to the eye of public opinion. In the general optimism of prosperity, their effects are softened in outline and seem neither destructive nor spectacular. Moreover, depression provides more opportunity for and greater temptation to indulge in unfair practices, because the very necessities of a shrinking volume of trade put the weak and unorganized in a less favourable bargaining position than ever in relation to the strong and organized.'

(Report of the Royal Commission on Price Spreads, p.5.)
(1934)

"As a result of their investigation the Commission saw fit to draw to the attention of the Canadian public some possible ways in which the conditions revealed could be ameliorated, and under this heading, referring to the co-operative movement and its place in the distributory mechanism of the country, the report states:

'It is our opinion that further development of Consumers' Co-operatives in Canada would be of general benefit, introducing a restraining influence on the practices of other merchandising organizations and assisting in consumer education, which we feel is most necessary.'

(Report of the Royal Commission on Price Spreads, p. 227.)

"Thus the Commission's report bore out the general

feeling among the people that they were being exploited. By this time, through the direction and leadership given by the Extension Department of St. Francis Xavier University, the common people were becoming students of economics, and were shocked at the alarming toll that they had been paying for services being rendered by a system based on the profit motive. They found that often there were several items of profit included in the price that they were required to pay for a manufactured article, such as manufacturers', brokers', wholesalers', retailers', etc., and that in addition the price would include considerable advertising, etc. They concluded that the operating of these services by themselves, with the emphasis on the service motive instead of the profit, -- that is, the cooperative way -- would place additional purchasing power at their disposal. Their study led to remedial action in the establishment of many cooperatives in the province, resulting in marked betterment of conditions in the area of their operations.

"2. Income The Standard of Taxation - What it Embraces

"The income of the person or body corporate is the object of the application of the Income War Tax Act. If a person has no income, that person is exempt from taxation. If the object of taxation is non-existent, there is obviously nothing to tax.

"No change has been made in the opening clause of Section 3 of the Income War Tax Act since its enactment in 1917. There "income" is defined to mean the annual net profit or gain or gratuity, and so forth. The Parliament of Canada thus set up a standard of taxation, and stamped the word "income" indelibly with the words "net profit or gain". No one would attempt to say that the standard so adopted was unfair or inapt. On the contrary, it is submitted that

the words chosen, with those that follow, are at once broad enough to give all the necessary coverage, and at the same time sufficiently precise to indicate clearly the ultimate boundaries of such taxation. Unquestionably there must be a permanent standard, if one follows the principle of the least possible disturbance of the natural development of industry, and the fact that Section 3 has stood unchanged for upwards of twenty-seven years seems to point to a degree of stability that could only have been achieved by a satisfactory statute.

"These observations are made at this point because it is our intention to point out that the so-called exemption of cooperatives from taxation is not an appropriate phrase. The method of taxation adopted actually is not and never was intended to be applicable to cooperatives, the reason being inherent in our economic structure. To make this clear, to define the true nature of the standard followed throughout the years, to indicate the types and methods of operation of cooperatives in Nova Scotia, and to evaluate the worth and place of cooperatives as strengtheners of the economic fabric of the nation, are the chief aims of this submission.

"3. The Canadian Income War Tax Act in Relation to Co-operatives.

"Section 4 of the Act deals with income not liable to taxation. Section 4 (p) was enacted by Section 2, Chapter 24, Statutes of 1930, and was deemed to have come into force at the end of the 1929 taxation period. The wording is similar to that of the United States Statute of 1926.

'This paragraph was enacted after a decision of the Supreme Court in the case of Fraser Valley Milk Producers Association vs. The Minister of National Revenue, 1928 Ex. C. R. 215, and 1929 S. C. R. 435,

in which the taxpayer was an incorporated company with paid up share capital. The profits of the concern were divided among producer members in proportion to the value of the produce supplied by each, after paying a dividend on the capital stock. It was held that the dividends could not be deducted by the company in arriving at its taxable profits.

'Accordingly, paragraph (p) was introduced into the law for the purpose of exempting such a concern, where the profits (less expenses and reserves) are paid back on a specified basis.'

(Dominion Tax Service)

"It is submitted, however, that Section 4 (p) in granting exemption from taxation of cooperative associations, was only declaratory of the law as it existed prior to 1929, and was no doubt introduced to quiet the fears of those who, in view of the litigation that had developed, thought that the interests of cooperatives had been threatened.

"The wording of sub-section 4 (p) is so close to the wording of the American Federal Income Tax Statute that for purposes of comparison and analysis the parallel sections of the American and Canadian Statutes are quoted hereunder:

'The American Statute: 44 Stat., 9, 40; 26 U.S.C.A.
101

'The following organizations shall be exempt from taxation under this chapter:-

'Farmers', fruit growers', or like associations organized and operated on a cooperative basis

'(a) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them,

'or (b) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses.

'Exemption shall not be denied any such association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or eight per cent per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than non-voting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the Association, upon dissolution or otherwise, beyond the fixed dividends) is owned by producers who market their products or purchase their supplies and equipment through the Association; nor shall exemption be denied any such Association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose.'

"The above quoted provisions of the American Statute have been construed by the United States Treasury Department to cover not only agency type organizations, but also ~~those~~ which take title to the products ~~received from~~ or sold to patrons. In addition, the statutory language has been construed to include associations which process products by changing the form of the raw materials furnished by their producer members.

'Agency Co-operatives:

'In final effect, all true cooperative organizations are regarded by some authorities as agencies.

Thus, a so-called purchase and sale marketing co-operative which takes title to the products is deemed to have the nature of an agency, since the purchase price paid to patrons theoretically represents merely an advance which is augmented at the close of the year by the allocation or refund of net savings. Similarly, a farm supply organization is virtually, and in many cases actually a purchasing agent for its patrons. Following this theory, its so-called savings are merely the result of temporary overcharges to patrons for merchandise purchased and turned over to them.'

(Application of The Federal Income Tax Statutes to Farmers' Co-operatives, p.50.

By George J. Waas, Principal Business Analyst of U. S. Department of Agriculture,

and

Daniel G. White, Assistant to Chief of Co-operative Research and Service Division.)

'The Canadian Statutes: Section 4 (p) reads as follows:

'Co-operative Companies and Associations:

'The income of farmers', dairymen's, livestock-men's, fruit growers', poultrymen's, fishermen's, and other like cooperative companies and associations, whether with or without share capital, organized and operated on a cooperative basis, which organizations

'(a) Market the products of the members or shareholders of such cooperative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves:

'(b) Purchase supplies and equipment for the use

of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

'Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association, provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.'

'Mutual Plan:

"The principle of mutuality is exemplified in subsection (a) of Section 4 (p): 'Market the products of the members or shareholdersunder an obligation to pay to them the proceeds less necessary expenses and reserves;' and (b) 'Purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.'

"The non-profit, mutual nature of this type of operation clearly distinguishes cooperatives from commercial business concerns whose main object is to make profits for the benefit of the proprietor or the investing shareholder.

'No basis is perceived for the view that an association ceases to be a non-profit association because it obtains greater returns for its members than they could obtain from their raw products. In so far as it has any bearing on the matter, benefits received by the members of a cooperative in the form of increased returns are evidence of its non-profit character. The principal objective of a cooperative association is to increase returns to its members. Obviously, it is the members who profit from such

increased returns and not the association. The situation, in so far as an association formed and operating on an ideal basis is concerned, is analagous to one in which an individual might act on a cost basis as the agent for farmers in disposing of their products. The agent would be acting on a non-profit basis, and higher returns which he might be able to obtain for the farmers would not operate to change his status. Such an association is not in any commercial sense making a profit on the products received from its members. Fundamentally, the obligation of the association is to return everything received for the products delivered by its members, less operating costs and expenses, and other authorized deductions, for which, in many instances, the members received credits. In other words, the making of profits, as that term is ordinarily employed, is entirely foreign to the character of a true cooperative association. The fact that an association must have money to operate does not affect its non-profit character.'

(Legal Phases of Co-operative Associations, p. 166.

L. S. Hulbert, Liaison Attorney,
Office of the Solicitor,
United States Department of Agriculture.)

"Any other corporation operating on such a non-profit basis, would also pay no income tax, for the simple reason that there would be no income to tax.

'Income tax, if I may be pardoned for saying so, is a tax on income. It is not meant to be a tax on anything else.'

(Lord McNaghten, in London County Council
v. The Attorney General, (1901) A. C. 26, 35.)

"4. Consideration of Elemental Justice in the Taxing Statute

'The tax must, above all, possess the requisites

of legality, of certainty, of legitimacy, of equality and morality.

'In fiscal matters, as in others, juridical considerations should prevail over economic and political ones, and the goal should be the closest possible approximation to equity.

'The equality of the tax relates to the justice of the apportionment among the contributors, and is the fiscal application of the principle of equality of the citizens before the law.'

('Taxation, its principles and methods.'
By Dr. Luigi Cossa.)

"Taxation should cause the least possible disturbance of the natural development of industry.

"It should tax the income only, but spare the estate itself.

"Taxation would be immoral in its effect if it diverted attention from labour, from habits of saving, or discouraged self-help, education and development.

"This principle is recognized in the non-taxation of cooperatives, for the reason that their existence is considered beneficial to the general public welfare.

'Words occurring in a Statute imposing taxation throughout the United Kingdom should be construed so as to make the incidence of taxation alike in every part of it.'

(Halsbury, Vol. 31, p. 542.)

'A law imposing taxation should always be construed strictly against the taxing authorities, since it restricts the public in the enjoyment of its property. These taxing laws are not to be extended beyond the clear import of the language used, and the powers

granted to the officers charged with their execution must be strictly pursued.'

(Brodeur, J. in Can. Northern Railway & C.N.R. vs. R. & Prov. Treas. of Alta. 64 S. C. R. 264, citing Tennant v. Smith, 1892, A.C. 150.)

"It was suggested by Herbert Adamson, Secretary of the Income Taxpayers' Association of Canada, in an address delivered at Regina on May 25th, 1944 (issued in pamphlet form) at page 7, that provision should be made by express enactment for the taxation of patronage dividends of co-operatives. If this were done, it would alter the whole principle of the present Act, as it is well settled that patronage dividends are not income.

"In the case of Ostime (H. M. Inspector of Taxes) v. Pontypridd and Rhondda Joint Water Board, reported in All England Law Reports, September 30, 1944, Vol. 2, part 8, at p. 237, the Editorial note reads as follows:

'This case considers the interesting argument that a joint water board is in a similar position to a cooperative society and is therefore not subject to income tax. The peculiar position of a cooperative society was based on the fact that in the result it made no profit because any profit shown to be made was returnable as bonus to the members.'

"In this case, Scot, L.J., discussed the case of Re Glasgow Corp. Waterworks (1875) 1 Tax Cas. 28; 28 Digest, 21, and said, "The ground of immunity was that no profits and gains resulted; because the cash payments by members of the society for goods received were not final; they were subject to reduction by bonus returns so that the total of the resulting net payments left the society with no surplus over its expenses, and, therefore, no income.

'Patronage dividends were held in a Mississippi

case not to be a part of the gross income of the co-operative, as it was obligated to return these amounts to the persons to whom they were paid.'

(State v. Morgan Gin Co. 196 Miss. 66.)

"It is trite to say that trade or business requires two distinct contracting parties, and a person cannot make a taxable profit by dealing with himself.

"One argument being put forward by the Income Taxpayers' Association for the taxation of cooperatives in Canada is that while they were formerly exempt in England, they came under income tax there in 1933. However, an important point in this connection is that under the English Act, dividends granted by such a society to members or non-members on account of purchases are allowable as trade expenses of the society in computing the profit or surplus or loss arising in the year in which the purchases were made.

"At this point reference may be made to the Standard of Taxation dealt with in Section 2 of this brief, and it is submitted that if the standard of taxation is to be changed, then it will be necessary to go beyond income as the object of taxation -- a step which would undoubtedly result in utter confusion and uncertainty, with highly detrimental effects.

'A new kind of 'income' would need to be defined, a 'wage' of the consumer, earned, whenever his pocket benefited by economy in self-supply, in order to bring within the limits of any income tax the excess payments revealed in cooperative transactions at each accounting.'

(Encyclopedia Brittanica, Vol. 6, p. 385.)

"5. How the Courts Have Interpreted the Words "Net Profit or Gain."

"What has been considered to be a profit or gain arising from a trade or business has been discussed in numerous

cases.

"The leading Canadian case on the subject is Minister of National Revenue vs. Saskatchewan Co-operative Wheat Producers, Limited, (1930) 3 D. L. R. p. 162. The primary object of these Saskatchewan grain growers was to market their grain cooperatively. The company retained as a "commercial reserve" and as an "elevator reserve" from the gross receipts of the sale of grain and was assessed for income tax in respect to it. It was contended for the company that this was not income, and Lamont, J. upheld the contention. He said:

'As the basis of chargeability to income tax is the operation of a trade or business giving rise to a profit and as the association in this respect is merely machinery for collecting contributions from the growers, not as shareholders of the association but as subscribers to the fund, and for using those moneys for the benefit of the growers and handing them back in some form or other when no longer required, I am of opinion that the sums assessed cannot be said to be profits or gains of the association.'

"The leading English case is New York Life Assurance Company v. Styles, 14 A.C. 381 a decision of the House of Lords. In that case Lord MacNaghten said:

'The company was not formed for the purpose of carrying on business for the acquisition of gain What is to become of the surplus if everything goes right? The practice is to take an account every year of assets and liabilities, and to give the insured the benefit of the surplus, either by way of reduction of premium or by way of addition to the sum insured. It can make no difference in principle whether the surplus

is so applied, or paid back in hard cash. In either case it is nothing but the return of so much of the amount contributed as may be in excess of the amount really required. I do not understand how this excess can be regarded from any point of view or for any purpose as gain or profit earned by the contributors. I do not understand how persons contributing to a common fund in pursuance of a scheme for their mutual benefit....can be said to have made a profit when they find they have overcharged themselves, and that some portion of their contributions may be safely refunded. If profit can be made in that way, there is a field for profitable enterprise, capable, I suppose, of indefinite expansion.'

"And in the same case Lord Watson said:

'When a number of individuals agree to contribute funds for a common purpose, such as the payment of annuities, or of capital sums, to some or all of them, on the occurrence of events certain or uncertain, and stipulate that their contributions, so far as not required for that purpose, shall be repaid to them, I cannot conceive why contributions returned to them shall be regarded as profits.'

"Then in Jones v. S. W. Lancashire Coal Owners Ass'n., Ltd. (1926) 42 times L. R. 401, Rowlatt, J. said:

'As I understand the New York case (the Styles case)....all that the company is doing is to collect money from people for those people, to do certain things for them, and let them have the balance of their profit in some form or other, and there is no profit to the company in that transaction. If the people do

it for themselves there is no profit. If they incorporate a legal entity to do it for them, and to provide the machinery for them, there is equally no profit.'.....

'I think the broad principles there laid down was that, if the interest in the money does not go beyond the people who subscribed it, then, just as there is no profit of any sort earned by the people themselves, if they act for themselves, so there is none if they get a company to act for them.'

"In a recent United States case, it was decided that patronage dividends would be excluded from gross income subject to tax. The headnote in this case reads as follows:

'Exempt corporations; Agricultural co-operative Association: Exclusion of patronage dividends: Force of by-laws. -- Taxpayer, incorporated under the Indiana General Corporation Act, carried on business as an agricultural cooperative association. By its by-laws its patrons were entitled to a distribution in proportion to the patronage furnished by them of all the net income of taxpayer remaining after payments to a reserve for depreciation, in such amount as the directors should determine but not less than 5 per cent of the cost of its property, and after payment of such dividends upon its common stock as the directors might declare but not in excess of 8 per cent of the par value of the stock. During the taxable years no dividends were declared by taxpayer's directors on its stock, and practically all of its net income was refunded by 'patronage dividends' to its patrons. The Tax Court holds that patronage dividends distributed by taxpayer in excess of 8 per cent of the par value of

its outstanding common stock are to be treated as rebates to which patrons are entitled by its by-laws and therefore are to that extent to be excluded from gross income subject to tax.' --

(United Co-operatives, Inc. vs. Commissioner
C. C. H. Federal Tax Reporter 1945 Volume 4
Page 9030, Section 7026.)

"Adverting to the recent English case of *Ostime vs. Pontypridd Water Board* (supra) the introductory words of *DuParq, L. J.* at page 240, are well worth quoting. He says:

'If a local authority levies a compulsory water rate in respect of premises within its district, any balance of the proceeds of the rate left in its hands after the necessary expenditure for the year has been made is not subject to tax. The local authority is regarded as representing the ratepayers. It manages the ratepayers' affairs and holds their purse. It is, in the words of Lord Deas in the *Glasgow* case, at p. 50, "the mere trustee, hand and instrument of the ratepayers." When the ratepayers pay rates, they are passing money, so to say, from their physical hands to their own metaphorical 'hands'; any unexpended balance is no more a profit than is the money which is left in an individual ratepayer's pocket when having provided himself with cash to be spent for a particular purpose, he is gratified by finding that it has not all gone.'

'Trade or business requires two distinct contracting parties, and a person cannot make a taxable profit by dealing with himself. Thus, certain mutual assurance associations have been held not to be carrying on business. Similarly, certain municipal corporations, and a cooperative company have been held not to be

assessable to income tax.'

(Daimler Co. Ltd., vs. Continental Tyre & Rubber Co.
(1916) A.C. 307. per Lord Shaw of Dunfermline.)

"6. The Essential Nature of a Co-operative society

'The goal of the Consumers' Co-operative is to increase the members' real income by securing commodities of high quality at reasonable prices, mainly through the direct purchase of specified products, thus eliminating the costs of advertising and the middleman's charges. The cooperative organization consists of unlimited voluntary members, each of whom has one vote regardless of the amount of money invested. Borrowed capital is paid for at no more than the legal rate of interest. Commodities and services are sold at the current retail market price; and the difference between cost price and sale price (after deduction of expenses) is returned to purchasers in proportion to their purchases. Thus the Co-operative Society is controlled democratically by consumers, and is run for the service of members rather than for profit.'

(From "The Basic Teachings of the Great Economists,
p. 340. By John W. McConnell, of New York University.)

"In making an analysis of the essential features of a cooperative society, a distinction may be drawn between (1) the association of persons which constitutes the society, and (2) the undertaking in common by which it carries out its objects.

"(1) The association of persons:

"(a) Persons associate of their own free will in order to satisfy needs of a similar character by means of an undertaking carried out in common.

"(b) The association is open without restriction to all persons on whom it can confer a benefit.

"(c) Its constitution is democratic. (The general meeting is sovereign, members have equal votes.)

"(d) The association thus constituted, while endeavouring to strengthen the economic position of its members, also endeavours to establish bonds of moral solidarity between all the members, and to create a common social life based on development of personality and mutual aid.

"(2) The undertaking in common

"The conditions of its working and management are not determined with a view to making the highest profit but to affording the best service.

"In consequence,

"(a) A cooperative undertaking will endeavour to obtain the capital necessary from its members to ensure its working (either in equal shares or in proportion to the services to be rendered to each member), while endeavouring to encourage saving and having recourse to such saving, such an undertaking will only pay on individual capital a limited interest, independent of the financial results of the undertaking.

"(b) The annual surplus or savings, if such exist, and in so far as it is not allotted to the reserve fund or to capital expenditure of a general interest, will be distributed among members in proportion to their dealings with the undertaking; that is, according to a practical rule which aims at making up the difference between the payments affected by members in the course of the financial year for services rendered and the cost of rendering these services.

The Co-operative Society is an institution of the people run for and by the people. It is a democratically

managed, non-profit undertaking. The origin of its receipts is in its own membership. The dividend on purchases which is returned to the members is nothing more or less than a rebate on the purchasing price -- so it was stated by the English Royal Commission on Income Tax, in 1920.

("Consumers' Co-operation in Great Britain"
by Carr-Saunders, Florence & Peers at p. 464.)

"The Co-operative Society is owned and controlled by the users associated of their own free will for a specific common purpose. That purpose is not to bring wealth and power to a few, but welfare to the many. To this end, it promotes education of its members, by means of classes, lectures, libraries, broadcasting and motion pictures. While the primary aim of the institution is to improve the economic situation of its members, by virtue of its methods and of the qualities which it demands of and develops in the members, it achieves a higher aim.

'The goal of cooperation is to develop men -- men imbued with the spirit of self-help and mutual aid, in order that individually they may rise to a full personal life, and collectively, to a full social life.'

(Dr. Fauquet, "Le Secteur Cooperatif," p. 44.
Cited in "Cooperative Organizations and Post War Relief", p. 35, a publication of the International Labour Office, 1944.)

"The cooperative movement has been called "A Planned Economy with a Social Content," "An economic system based on democracy and making for democracy." It has been pointed out that the cooperative system caters to the needs of low and middle income groups and helps to free them from the domination of economic powers, that it may be regarded as a form of machinery for the redistribution of the national income; that within its own realm it turns

directors of business into true public servants, and that it provides the means of a direct and intelligent people's participation in the vital processes of society.

"7. Some Types of Co-operatives in Nova Scotia - Consumer and General Purpose Co-operatives"

"Under this heading we have in Nova Scotia two Co-operative Wholesales, fifty-one Consumer Co-operatives and two Producer Co-operatives, all incorporated under the Provincial Co-operative Associations Act; these are in addition to Fishermen Co-operatives engaged exclusively in handling fish and fish products, which organizations are covered in the brief presented by the United Maritime Fishermen.

"Wholesales"

"The Wholesales are set up by the Consumer Co-operative Organizations to provide for them wholesaling services at cost. They sell to their member organizations at prevailing wholesale prices and as a result show a surplus after expenses and provision for necessary reserves is deducted from the gross margin, this surplus or overcharge is rebated to the member organizations on the basis of their trading with the wholesale, thus the final price to the member organization is at cost.

"The by-laws of the wholesales provide that they may pay their member organizations interest on their capital investment in the wholesale of 5 per cent or less; to date interest has not been paid and will not likely be paid in the future because the pooling of their resources by the individual cooperative organizations to set up a wholesale was not for the purpose of earning an income on such investment but for the purpose of providing for themselves a wholesaling service at cost. The wholesales, instead of selling at prevailing wholesale prices could have reduced

their prices sufficiently to result in their showing no surplus at the end of their financial period.

"In addition to providing wholesaling services for their member organizations the wholesales act as agencies for them in packing, grading and marketing farm products.

"Consumer Co-operatives

"The Consumer Co-operatives are set up by groups of individuals for the purpose of providing the means through which they can be serviced for their consumer needs at cost. These organizations purchase their supplies from the co-operative wholesales at a price which does not include the item of wholesale profit as outlined above. They sell to their members at prevailing retail prices and as a result show a surplus after deducting expenses and provision for necessary reserves from the gross margin. This surplus or overcharge is distributable to the members on the basis of their trading with their cooperative. Thus the price paid by the individual member is -- cost of the commodity to the wholesale plus wholesale expenses and provision for reserves plus retail organization expenses and provision for reserves.

"Taking the cost to the wholesale as 100 per cent, the following illustrates the advantage to the consumer of operating these services on a cost instead of on a profit basis.

	<u>Profit Basis</u>	<u>Non Profit or Co-op. Basis</u>
Cost to Wholesale	100 %	100 %
Wholesale Expenses & reserves	5.4	5.4
Profit (Wholesale)	2.7	-
Retail expenses & reserves	18.5	18.5
Retail profit	<u>5.3</u>	<u>-</u>
COST TO CONSUMER	<u>131.9</u>	<u>123.9</u>

"Our consumer cooperatives have been paying interest of less than 5 per cent on paid up capital invested by their members; however, within the last year some of our larger cooperatives have been discussing the futility of rebating their earnings accrued as a result of selling at prevailing retail prices instead of at a price based on cost plus expenses and provision for reserves to their members partially as interest on capital and partially as a rebate on trading.

"Producer Co-operatives

"Both our producer cooperatives are set up by their farmer members to process and market milk and milk products. They pay their members the standard prices for milk and cream and sell the pasteurized milk, cream, butter, etc. at prevailing prices resulting in their showing a surplus after deducting expenses, provision for reserves and interest on capital of 5 per cent from the gross margin. This surplus or under-payment for milk and cream is distributable to the members on the basis of their trading with the cooperative. Thus the member receives an additional payment for his milk or cream, i.e. additional to the standard prices which he would receive if he was dealing with a private dairy. These organizations could of course pay a price at the outset sufficiently high to result in their showing no surplus at the end of their financial period and thereby attain the same goal as is attained by their paying standard prices and returning the surplus to the farmers.

"Control

"Each member of both consumer and producer cooperatives has one vote regardless of the amount of capital he has invested and voting by proxy is not permissible. Each producer and/or consumer cooperative is controlled by a

board of directors elected by the members in general meeting assembled.

"Each wholesale is controlled by a board of directors elected by the authorized delegates from their member organizations in general meeting assembled, each delegate is entitled to one vote and proxy voting is not permissible.

"The British-Canadian Cooperative Society, Limited

"The British-Canadian Co-operative Society, Limited, was incorporated by a special Act, being Chapter 198, of the Acts of Nova Scotia, 1906, amended by Chapter 139, of the Acts of 1918, and Chapter 150 of the Acts of 1921. It consists now of a central store in the Town of Sydney Mines, and eight branch stores at Florence, Cranberry, North Sydney, Glace Bay, Dominion, Bras d'Or, New Aberdeen, and Dominion No. 6, all in the County of Cape Breton. The reason that these branch stores arose was that the people in the areas served, which are quite widely separated, requested the opening of the branches. It is obvious that the consumers in the communities named can be served more economically in that way than from the central store.

"This Society was organized in the early days, when there was no general legislation for the organization of cooperatives. The cooperative character of an association does not depend on whether it is formed with or without capital stock. Either type of organization may be thoroughly cooperative if properly organized and operated.

"The objects of the Society are set out in their Rules and By-laws as follows:

'The objects of the Society are to raise, by the voluntary subscriptions of members, a fund for the purpose of enabling them to purchase food, clothes or other necessities, by carrying on in

common the trade of general dealer, both retail and wholesale, to manufacture and produce any article so dealt in, also the power to purchase, hold, sell, lease or sub-lease lands or buildings of any tenure, and to erect, pull down, repair, alter or otherwise deal with any buildings thereon.'

"The provisions in regard to capital are as follows:

'It shall not exceed \$500,000, divided into shares of \$5.00 each. Each member shall hold at least 5 shares and not more than 40.'

"The rate of interest on share capital was originally limited to 5 per cent, which in the year 1941 was reduced to 4 per cent. On loan capital the rate of interest was originally 7 per cent, reduced in the year also to 4 per cent.

"Each member shall have only one vote.

"Reserve Fund

'The reserve fund shall be held for the general benefit of the Society, and may be applied to meet such cases as may from time to time arise to the Society through bad debts or otherwise, and to such educational, provident or lawful purpose for the general benefit of the Society or members thereof, as any special general meeting from time to time authorize.

'The accumulation and maintenance of a reserve required by State statute, or the accumulation and maintenance of a reasonable reserve or surplus for any necessary purpose, such as to provide for the erection of buildings and facilities required in business or for the purchase and installment of machinery and equipment or to retire indebtedness incurred for such purposes, will not destroy the exemption.'

(United States Bureau of Internal Revenue,
Regulations 103, Income Tax, sec. 19, 101
(12) - 1, 237, 238.)

"It is apparent that reserves may be accumulated for what are essential capital purposes. No reason is apparent why a cooperative may not accumulate reserves for any necessary purpose, provided they are reasonable in amount.

"In this connection it may be noted that during the past eight years no deposit has been made to the Reserve Fund of this Society, which stands at \$46,499.41; that is Reserves are not maintained beyond an amount considered sufficient for protection.

"This Society has invested \$150,000 of its capital in the Victory Loans.

'An Association does not cease to be cooperative because interest is earned or because its money is prudently invested when not required for the normal operations of the cooperative. To hold otherwise would be to penalize thrift and good business management. It has been held that a mere incidental profit by way of interest on its invested safety funds, does not change the purely mutual character of the company or indicate that its business through thus earning a profit is carried on for profit.'

(Niles v. Central Mfrs. Mutual Ins. Co.
252 F. 564. 566.)

"Investment in War Bonds is a commendable patriotic practice which should be encouraged.

"Application of Surplus or Savings

"1st. In the payment of interest on share capital, not to exceed 4 per cent per annum.

"2nd. In the payment of interest on loan capital, not to exceed 4 per cent per annum.

"3rd. In the reduction of the value of building and fixed stocks by a percentage fixed by the board from time to time, subject to the approval of a general meeting of the members.

"4th. In building a Reserve Fund by taking any such sum (from the savings) as the Board of Directors may determine, subject to the approval of the general meeting of the members.

"5th. In promoting instruction, culture, or recreation, by forming an educational fund by taking any such sum (from the savings) as the Board of Directors may determine, subject to the approval of the general meeting of the members.

"6th. To any purpose, whether such purpose be charitable, philanthropic or of public utility, by taking any such sum (from the savings) as the Board of Directors may determine, subject to the approval of the general meeting of the members.

"7th. The remainder, or such portion that may be agreed upon, shall be divided quarterly amongst the purchasers in the proportions of two to members and one to non-members, or in such proportions as the Board may think proper according to their several respective purchases at the store during the quarter. Any balance remaining to be carried forward to the next quarter, subject to the approval of the general meeting of the members.

"In 38 years, this society has sold to its members merchandise of the value of \$36,633,834.79. The members, being in the main coal miners of the district, have had returned to them, as consumers, \$3,147,347.61, but as

holders of share capital only \$338,433.82. In other words, as investors of share capital they have received only one-eleventh of the aggregate savings. As consumers, they have had returned to them ten-elevenths, to which extent the purchasing power of their wages was increased.

"The business of this Society with non-members is negligible. For instance, the last half-yearly balance sheet, being of date of August 2nd, 1944, shows \$27,401.95 returns on members' purchases as against \$343.83 on non-members.

"Patronage Dividends

"It is clear from the foregoing that "Patronage Dividends" constitute by far the greater part of the allocation of the savings of this society.

"As previously pointed out in this brief, patronage dividends are not taxable under the English Act.

'Dividends granted by a registered society to members or non-members on account of purchases are allowable as trade expenses of the society in computing the profit or surplus or loss arising in the year in which the purchases were made.'

(Halsbury, 2nd Edition, Vol. 17, p. 468.)

'Under long established bureau practice, amounts payable to patrons of cooperative corporations as so-called patronage dividends have been consistently excluded from the gross income of such corporations.'

(Bureau of Internal Revenue, U.S.A. I.T. 308.)

"Interest on Share Capital

'The payment of a fair rate of interest by co-operatives on their stock or membership capital should be regarded as an operating expense, like interest paid

on borrowed money.'

(Garden Homes Co. v. Commissioner of
Internal Revenue, 26 B.T.A. 64 F. 2d. 593 U.S.A.)

"Such interest is dealt with in England as follows:

'Interest on shares, including any interest, dividend, bonus or other sum payable to a shareholder by reference to his holding of share capital, and interest on loans, have to be paid in full, and the recipient will be chargeable to tax by direct assessment in accordance with his individual liability to tax.'

(Halsbury, 2nd Edition, Vol. 17, p. 468.)

"It will therefore be seen that in England and the United States, cooperatives are not taxed on patronage dividends or interest on share capital.

"In the case of the British-Canadian Co-operative Society, Limited, what is left after the actual costs are covered, belongs to the member and is systematically returned to him.

"Local Benefits of Co-operation

"The British-Canadian Co-operative Society, Limited, was organized by a group of people, who, before emigrating to this new land, were cooperators in the Mother Country. A few of these charter members are still living, and, could they be here at this sitting of the Commission, would relate many interesting stories of hardship, sacrifice and devotion to this cause. The result is shown today on one of the largest Consumer Co-operative Societies on the North American Continent, built on a solid foundation, and one that will stand for generations to come as a memorial of what can be accomplished when service is put before profit.

"The Town of Sydney Mines and surrounding areas, like

any other industrial community in this country, is dependent entirely on its sale of labour to industry for a price, which, with exception of the privileged few, has always been inadequate to provide sufficient food and clothing and a reserve for an uncertain future of sickness and distress and for old age security. The cooperators of the British-Canadian Co-operative Society, Limited, are today proud to state -- as already set forth -- that during the past thirty-eight years of trading with one another they have returned to themselves over Three Million Dollars in savings. Surely this Commission which is representative of the Government of this country cannot but realize the significance of this saving and what it meant to a cooperative group of people who, in many cases, instead of being a charge to the State in past depression periods, were able to finance themselves without calling for government relief. The following are specific cases:

"A few years ago a middle-aged lady in the country, situated a few miles from the society of which the couple were members, had the misfortune to lose her husband. They had purchased goods from the society for a number of years, but she had not acquainted herself with its methods of operation. Facing the necessity of providing for herself and family she approached the society with a view to purchasing a washing machine on credit, with the intention of reducing her liability by part of the proceeds gained from taking in washing. Her surprise was indeed great to discover that she did not need credit as her association with the society had built up a reserve of purchase savings to the extent of four hundred dollars. Needless to say, she purchased the washing machine and she was able to provide for herself and family.

"During the last depression period, a loyal member of this society, who, like so many others, rather than accept government relief, used up his accumulated savings in the society to feed and clothe his family, and after his savings were exhausted had to seek credit from the society to the extent of a few hundred dollars, was able later, when conditions improved, to liquidate his liability by future purchase savings. The effect of this experience on the character of that particular person and others like him, must indeed be illuminating, and is an example of the influence of character building organizations such as co-operatives.

"Hundreds of similar stories could be told by members of this society if they could have appeared before this Commission.

"The British-Canadian Co-operative Society, Limited, if need be, could substantiate by facts and figures, cases where members have been protected on prices. For instance, a few years ago the society was able to contract for the winter's requirements of butter, and when the market price on this commodity rose so sharply that they could have sold their contract to their suppliers for a handsome profit, they declined to do so and thereby were able to protect and supply their members with this commodity at a price reasonable and just.

"Another indication that service is always considered before profit can be shown in their last balance sheet of August, 1944, where appears an item of interest bearing three per cent Victory Bonds in the amount of One Hundred and Fifty Thousand Dollars. This represents excess capital owned by the membership and which due to war restrictions the society is unable to use for expansion of its business.

This capital is a charge to operational expense of four per cent interest, but they, as cooperators, felt it their patriotic duty to direct this excess capital to the war effort, with a depreciation of one per cent. What better example of loyalty and character could be exemplified than in this group of cooperators who saw the need of a victorious service in lieu of profit.

"Stories can be told of many homes built and furnished through cooperative brotherhood, and as the movement continues to grow, if not unduly hampered by unjust taxation, it will no doubt play an important part in the economy and future progress of Canadian industry.

"There are 3,276 members in the British-Canadian Co-operative Society, Limited. It must be borne in mind that taxation of this society would be in effect a personal levy on thousands of coal miners who daily hazard their lives for a small wage, and who have formed themselves into this co-operative association in order to stretch that wage as far as possible in the purchase of the necessities of life. No excessive salaries are paid, the operation is entirely democratic -- one member, one vote, regardless of capital holdings. Through heroic labour, sacrifice, devotion and enterprise they have successfully pioneered the way of co-operation and communal service. The workers in this movement are only expecting the right to live as cooperators would like all other peoples on this earth to live, not by the sword, but in harmony and good fellowship with all, and an equitable share of the fruits of this earth.

"Finally, it is respectfully submitted that the matter of the exemption of the British-Canadian Co-operative Society, Limited, and other cooperatives from taxation is not a matter of grace or favour, nor is it discriminatory against

ordinary business corporations.

"It must be kept in mind that the members of this society pay income tax on their occupational earnings. These earnings are expended in the society for the necessities of life, and part of such earnings is returned to them in the form of the patronage dividend. This money already has been taxed in their hands, and should not be doubly taxed. This is only simple justice.

"8. The Place of Co-operatives in the Economy of the Nations

"The United Nations Conferences on Food and Agriculture held at Hot Springs, Virginia, May 16 to June 3, 1943, at which forty-four nations were represented, agreed unanimously that all countries study the possibility of the further establishment of producer and consumer cooperative societies.

"The full text of Resolution XVII, Co-operative Movement, reads:

'WHEREAS:

'1. The cooperative movement has been of very great importance in many countries, both to urban and rural populations, especially in agricultural districts where farming is based on small units and in urban areas of low income families;

'2. The proper functioning of cooperative societies may facilitate adjustments of agricultural production and distribution, as members have confidence in the recommendations and guidance of their own cooperative organizations, which they know operate in the interest of their members and of society in general;

'3. The democratic control and educational programmes, which are features of the cooperative

movement, can play a vital part in the training of good democratic citizens, and assist in inducing a sound conception of economic matters.

'THE UNITED NATIONS CONFERENCE ON FOOD AND AGRICULTURE RECOMMENDS:-

'1. That in order to make it possible for people to help themselves in lowering costs of production and costs of distributing and marketing;

'(a) All countries study the possibilities of the further establishment of producer and consumer cooperative societies in order to render necessary production, marketing, purchasing, finance, and other services;

'(b) Each nation examine its laws, regulations, and institutions to determine if legal or institutional obstacles to cooperative development exist, in order to make desirable adjustments;

'(c) Full information as to the present development of cooperatives in different countries be made available through the permanent organization.'

(Canada Year Book, 1943-44, p. 536.)

"The recommendation that each nation examine its laws, regulations and institutions to determine if legal or institutional obstacles to cooperative development exist, in order to make desirable adjustments, seems to presuppose a removal of barriers to cooperative development.

'The most important economic aspect of income taxation is naturally its effect upon the capacity and psychology of the taxpayer, for these may affect his willingness to work and save, and thus have important reactions upon national production.'

(Encyclopaedia Britannica, Vol. 12, p. 135.)

"From this standpoint, it is submitted that the imposition of a tax upon patronage dividends would not be a desirable adjustment. On the contrary, it would tend to discourage thrift and would actually result in direct double taxation. Consider, for instance, the position of a miner in the Sydney Mines district, married, but with no dependents except his wife. His earnings and the income tax deducted (typical of many miners) were as follows:

<u>Year</u>	<u>Earnings</u>	<u>Tax</u>
1942	1454.07	99.15
1943	1316.74	127.49
1944	1430.78	145.45

"Can it be said that it would be a desirable adjustment to tax the miner's patronage dividend? Would not the effect upon his willingness to work and save be decidedly adverse? He has already paid the tax on his earnings. The patronage dividend is a part of that same earnings returned to him on his purchases out of his earnings.

"No doubt the members of the Conference at Hot Springs had in mind the necessity of utilizing every stabilizing influence available to meet the vast unsettlement and upheaval of economic conditions consequent upon the war. The threat of unemployment after the war is very real and cannot be ignored. In Canada we have half a million persons in the armed services, and many thousands in war industries. The government of Canada will get out of business, and for a long time business itself will be out of joint. Despite all well intentioned and praiseworthy plans for the rehabilitation of ex-service men, despite all our useful and excellent controls, it must be realized that in this country the change over from war to peace will be a very trying period in our history. How gravely it is feared in the

United States has been set forth by the Executive Secretary of the Research Institute of America, in a book entitled, "The Rest of Your Life." He writes:

'The proportion of workers in jobs producing metal, metal products, machinery and transportation equipment is three times as great as the peace time ratio. As war orders are cancelled and billion after billion of government money is withdrawn from the national blood stream, the country could just contract - - like a tire going flat with the car doing sixty on a dirt road. Deflation is a good description of what happens. You can almost see millions of men oozed out of industry as the factories shrink. You can see the bankruptcies as the bills remain unpaid. That's what happened in 1920 and 1921.'

"The measure of the unemployment problem that will confront the United States at the close of the war has been summarized as follows:

People holding jobs, the war years	53,000,000
Returning job-seeking servicemen	<u>8,000,000</u>
	61,000,000
Retirement of emergency workers	<u>4,000,000</u>
Size of labour force available for civilian jobs at war's end	57,000,000
Number employed in 1940	<u>46,000,000</u>
Excess over 1940 at war's end	11,000,000
11,000,000 unemployed	

"But even that eleven million figure doesn't tell the whole story. Fewer hands are needed to turn out such goods as were made in 1940. Technological improvements mean improvements mean more production with fewer workers. The United States Department of Commerce estimates that between 1940 and 1946 improvements in efficiency will displace

eight million workers. On this basis a total of nineteen million men and women will be without jobs.

"The American Bureau of Labour statistics after a State by State study of employment in war industry says there will be a national total of more than six million demobilized industrial workers, plus 8,500,000 demobilized servicemen.

"The conservative Brookings Institute says 17,800,000 persons in the demobilization period will have to find new jobs.

(The Rest of your Life, L. Cherne.)

"On March 13th, 1943, Arthur J. Altmeyer, Chairman of the Social Security Board of the United States, summarized the problems of social welfare in these words: "I need only remind you that at one time, not so very long ago, there were 28,000,000 people who were dependent on the government for the necessities of life. Not so very long ago, there were 12,000,000 workers unemployed through no fault of their own. Even today, there are over 5,000,000 people who are still dependent upon their government to supply them with the necessities of life, and there are still approximately 1,500,000 workers unemployed through no fault of their own." (From an address printed in the Congressional Record of March 17th, 1943, and cited in The Beard's Basic History of the United States, 1944, at page 486.)

"There can be but little doubt that notwithstanding all precautions similar problems on a proportionate scale will confront Canada at the close of the war.

"Unemployment insurance is an admission by governments of the certainty and magnitude of the unemployment problem, and of the difficulty of its solution. It is submitted that the application of the principle of

co-operation strengthens the financial structure of the state by increasing purchasing power and by steadily enlarging the demand for goods and services, thus creating employment of a permanent nature.

"On December 19th, 1944, Rt. Hon. A. V. Alexander, M.P., First Lord of the Admiralty, dealt with this aspect of co-operation in delivering the Centenary Address at Rochdale in Britain. He said: "I want to repeat in this Centenary address the claim which I have been making on cooperative platforms for nearly a quarter of a century, namely, that as the retail sales of the cooperative movement, now about £340,000,000 per annum, are roughly about one-tenth of the retail sales of the country, if the principle of cooperation was applied to the whole of our internal market, the surplus that would be returned to the consumer would increase his purchasing power by at least £300,000,000 per annum, and probably because of the economics inherent in a national system of distribution, avoiding the overlapping and duplication of services, a much larger sum than £300,000,000. I estimate that if this change came about completely, at least half our normal peace time problem of unemployment would be solved by the consequent increased demand for goods and services. Another factor in the distribution of the product of labour would be obviated, since in normal times the more the fortunes of the owners of capital increase under the present system, the greater is the tendency to invest in capital goods, with a consequent speeding up of production without a corresponding increase in the purchasing power of the consumer."

"In 1936, with admirable foresight, President Roosevelt appointed a Commission of Inquiry on Co-operative Enterprise in Europe. After conducting their investigation in ten

democratic countries, including England, Scotland, Ireland, France, Switzerland, Czechoslovakia, Denmark, Norway, Sweden and Finland, their voluminous report was published in 1937. The Commission reports: "A movement that has its full share of human errors has brought new hope, new sense of ownership, higher standards of living to a substantial portion of the people of Western Europe." The inquiry finds the following advantages in the cooperative movement: It controls monopolies, lowers prices and operating costs, provides secure investment and capital at low cost, combines high manufacturing efficiency and better goods, insists on open accounting, good conditions of employment, widespread education. Among its achievements, the inquiry found the reduction of costs in retailing, the sharing of the profits of a former army of middlemen between producers and consumers, the promotion of thrift, the wider distribution of property and income, better citizenship through widely diffused ownership, a more rapid recovery from depressions, decreased unemployment, and wider general prosperity among peoples who learn to cooperate.

"Why is it that sober conservative people of all classes are genuinely concerned about the social and economic future of this country? Is it not because a second world war has brought to millions of people a heartsearching realization of the evils of poverty and business crises among vast populations? As long as these evils exist, there will be discontent and envy and eventually hatred and war. The basic freedom is Freedom from Want. If it should become apparent that in order to achieve it, some departures must be made from the economic practices of past generations, then the progress of such movements ought to be encouraged, rather than hampered by undue taxation, because in the end

they will bring stability and strength, and will help develop a larger and more widely distributed national income.

"The Report of Co-operative Associations for the province of Nova Scotia for the year 1943 by R. J. MacSween, Inspector of Co-operative Associations is appended hereto.

Nova Scotia Co-operative Union

Per: A. S. MacIntyre, Director."

Documents filed with brief:

- 1. Report of Cooperative Associations, Nova Scotia, 1943.
- 2. Table I - Total Business of Cooperative Associations 1936-43.
- 3. Table II- Assets, Liabilities & Net Worth Co-operative Stores.
- 4. Table III - Assets, Liabilities & Net Worth Fishermans' Cooperatives.
- 5. Table IV - Assets, Liabilities and Net Worth Miscellaneous Cooperatives.
- 6. Table V - Summary of Assets, Liabilities and Net Worth all Cooperatives - 1943.
- 7. Table VI - Business Analysis Cooperative Stores.
- 8. Table VII - Business Analysis of Fishermens' Cooperatives.
- 9. Table VIII- Business Analysis of Miscellaneous Cooperatives.
- 10. Table IX - Summary of Cooperative Business, 1943.

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BY MR. PARKER:

Q. Mr. MacIntyre, you have read, I take it, the order in council appointing this Commission? A. Yes.

Q. And you are reasonably familiar with the task which the government imposed upon the Commission? A. Yes.

Q. It relates primarily to the question of taxation, does it not? A. Yes.

Q. As to the applicability of the present Income Tax Act? A. Yes.

Q. Is there anything in this document which you have just read, to which you can direct my attention, in which you suggest either that the present taxation law as it exists is quite satisfactory or in what respects if any it ought to be changed to suit the situation? A. So far as I know, the income tax law is unsatisfactory in that there is not sufficient clarification of its application.

Q. Have you so stated anywhere in your brief? A. I doubt if it is stated exactly like that.

Q. Or in any words similar to those which you have just used or conveying that meaning? A. In the citations it has been definitely stated that taxes should not be imposed on savings.

Q. Are you reasonably familiar with the Income Tax Act? A. Not very familiar with it.

Q. Particularly with the much discussed section 4 (p)? A. I am not very familiar with it.

Q. You are not in a position to state then whether it is your view or the view of the people whom you represent today that section 4 (p) is necessary or desirable in order to effect proper taxation? A. I am not very familiar with the Act and I don't think I am in a position to say definitely or to express an opinion on it.

Q. You did not study the Act as you prepared this brief in order to see what changes might be desirable? A. Except that legal counsel, who is our adviser, advised us.

Q. On the general contents of the brief? A. Yes. I am not personally familiar with it, though.

Q. Did you have a discussion with your legal advisers

on that point? That is the meat of the inquiry -- in what respect the present taxation laws are unfair or inapplicable to the people whom you represent? A. The committee charged --

Q. Will you answer that question. Did you have such a discussion? A. Not personally.

Q. Who did? A. The committee responsible for preparing the brief.

Q. So that you are not in a position to offer suggestions to the Commission on that point at the present time? A. Not on that point.

Q. Have you ever heard anybody suggest seriously, as a matter of principle, that there was any objection to the cooperative method of carrying on business in this province? Did you ever hear any suggestion that there was objection on the part of so-called ordinary business companies? Have you ever heard them in any place criticize that method or say that it was bad for the public welfare in any shape or form? Have you ever heard that criticism made? A. I doubt if it was expressed to myself.

Q. But you have heard some complaints about the difference in the taxes imposed on the two types of business?

A. Yes.

Q. That is the extent of the criticism you have heard?

A. Yes.

Q. It is on that point. In other words, nobody objects to the cooperatives carrying on their business as they may see fit? A. I do know that there has been some resentment on the part of certain men among the fishermen, but that will be dealt with in the other brief. My work takes me inside these fields and I know that certain fish dealers dislike the cooperative way of doing business.

Q. The dispute, if you like, centres around the question, not as to whether they should be allowed to carry on business but whether they should be allowed to carry on business in their particular way without paying their share of income tax. That is the whole dispute. A. Yes.

Q. Have you mentioned anything in your brief, from cover to cover, either to justify the difference in taxation or to meet this criticism that the cooperatives are getting certain favours in taxation over other types of business? Have you dealt with that? A. Yes. The whole brief deals with the fact that cooperatives should not be taxed on something that does not exist, and that is income.

Q. Let us assume that they do have something to tax -- just for the sake of argument -- then you do not suggest that they are entitled to favours in respect of that? A. If there is anything to tax I agree it should be taxed. I agree with the principle of taxing income.

Q. Therefore you do not require the laws to be so amended as to grant you special favours? A. No.

Q. No true cooperative would ask for that? A. No.

Q. Therefore, under the existing law, if it is true that the only reason cooperative societies are not compelled to pay taxes is because of special exemption given them, you think that is a special exemption to which they are not entitled? Is that your position? A. As I understand the question, it is that they have special exemption now, that they are exempt from income tax now? Is that the question?

Q. I want you to understand the question. You say in your brief that certain special amendments were made to the Income Tax Act in 1930, and it was provided that the income of farmers', fishermen's, poultrymen's and other like co-operative associations shall not be subject to taxation.

You know that? A. Yes.

Q. If from the very nature of the set-up of the co-operatives they do not make income, if they do not have profits, as you argue in your brief, there is nothing to tax and therefore they are perfectly safe? A. Yes.

Q. But assuming that your argument may conceivably be wrong and that they do have something to tax, then are you suggesting that parliament should say, "Even though you have something to tax, because of your set-up we will exempt you?" A. No.

Q. You would not take that position? A. Oh no.

Q. Therefore in so far as cooperatives do not have to pay income tax today, inasmuch as they do not have to by reason of these special exemptions, the people whom you represent would have no objection to having that section repealed? A. That is right.

Q. And would stand on the merits of the case by reason of the nature of the societies and the method of doing business? A. That is the position.

Q. Are you expressing your personal view, or have you authority to say that would meet with the approval of the people on whose behalf you are here today? A. I think it is true to say that the people I represent today are not averse to taking income if income exists, but they are averse to taxing savings. If the income is there they agree with the principle of taxing it.

THE CHAIRMAN: You do not rely on 4 (p)? You say simply, "We have no income; we are not taxable and 4 (p) has nothing to do with us?"

THE WITNESS: 4 (p) has nothing to do with the savings.

BY MR. PARKER:

Q. I want to make sure that you are not expressing your

personal opinion only but that you have authority, that you are here to state the views of the people on whose behalf you speak in this brief. A. Yes, that is right.

Q. Let us turn to the brief for a moment. I would like your views and the views of your people on another point. It has been stated at previous hearings in other places, and I think I am putting it correctly, that in some cases the primary motive or primary purpose in incorporating these societies was to improve the economic position of those who joined the societies. A. That is correct.

Q. Do you agree with that? A. Yes.

Q. It has also been stated in certain briefs that the economic improvement of the members was secondary and that the primary motive, the essential motive behind the whole scheme, was -- different expressions have been used to describe it -- the social, moral and general uplift of the communities in which they function; that that was the primary, and the economic was the secondary, motive. Which of these two views do you hold? A. I believe that if we are to attain the primary we must first of all take care of the secondary or economic purpose.

Q. That is, the economic purpose is the foundation of all? A. Yes.

Q. I think there are a good many who would agree with that, on the same basis that even in private enterprise ordinary companies tend to achieve greater success by promoting certain activities, and it is common knowledge that they do a great deal of that kind of work such as establishing recreational services for men and assisting them in numerous ways. In other words, the whole structure is improved once the economic foundation is sound. That is

true of humanity in general, is it not? A. Yes.

Q. This particular association you represent today is a federation, you tell us, and has a charter. A. It is not incorporated.

Q. It is not incorporated under the Co-operative Associations Act? A. No; it is just a federation.

Q. What ties it together? What is the bond? What does the society have to do to become a member of this union? A. Just apply for membership. We have a regular form they fill in and they agree to abide by the by-laws of the society.

Q. Have you one of those application forms? A. I am afraid not.

Q. I want to know what the association is and what constitutes a member. Who can apply? A. A bona fide society.

Q. My learned friend and I could not come in together and say, "We want to become members." What would be the qualifications? A. Bona fide societies incorporated under the Nova Scotia Co-operative Associations Act.

Q. And if it does not hold a charter under that act it is not eligible for membership in the union? A. That is right.

Q. Are all those incorporated under that act, irrespective of the way in which they may be carrying on business, accepted as members in your union? A. There may be associate members but without votes.

Q. What is the difference between an associate member and a full member? A. The associated member would be an organization that is interested in and promoted cooperation.

Q. But not one incorporated under the act? A. No.

Q. Let us deal **first** with those which are incorporated under the act. Are all those which are incorporated under

the Associations Act eligible for membership in your union irrespective of whether they are properly carrying on business in accordance with true cooperative principles? There may be an odd black sheep. Do you look into their methods before you receive them into membership or merely ask them to produce their charter? A. If they are bona fide voting members in the association they must be incorporated.

Q. Does every association which holds a charter under the act qualify for membership in the union irrespective of how it may be carrying on business or whether it conforms to all the rules and regulations of the acts and by-laws? Do you see my point? You do not look them over to see if they are properly qualified? A. It is our duty to see that they are carrying on according to the act and as far as possible we keep a reasonable check-up.

Q. How many such are members of your union? A. We have 51 contributing societies at the present time.

Q. What do you mean by contributing societies? I asked how many members you had. A. They are full members.

Q. And how many associate members? A. I believe I would be safe in saying we have three.

Q. What are their rights and obligations in the union as distinct from full members? A. They have the right to sit in at annual meetings and they have a voice, but no vote.

Q. A voice but no vote? A. No vote.

Q. Their influence comes from their moral rather than their voting power -- in fact, as you say, they have no voting power? A. That is right.

Q. Coming to these tables that you attach to your brief, which Mr. MacSween explained to us, do they or do they not

contain statistics relating to the members of your union or do they take in your union people? A. They are the same people who are in the cooperative union, though probably not all of them are in the union.

Q. How many are in the union and how many vote?

A. There are 64 listed there as at the end of 1943. We have now 51 members.

Q. And it would be 51 out of those listed here?

A. Yes. The others would be smaller ones who are unable to take membership, and new ones.

Q. What do you mean by unable? A. Small organizations that have no earning power.

Q. You do not help them very much if they are not able to help themselves. A. Yes, we do. That is not correct. We concentrate right there. That is why others contribute, so that we may be able to help them.

Q. When they become members of your union is there an initiation fee? A. No; there is no entrance fee.

Q. No payments made and no annual dues? A. Yes.

Q. On what basis? A. They contribute whatever they can but there is a basis on which they get certain services.

Q. I want to know what they contribute in cash annually. A. I am trying to tell you that. There is a basis on which they are asked to contribute and that is 8/10 of 1 per cent of total sales.

Q. That is, sales of the cooperative? A. It is 8/10 of 1 per cent of the cooperative's sales, total sales.

BY MR. NADEAU:

Q. When was your union formed? A. July of last year. For that 8/10 of 1 per cent that particular society is entitled to a subscription to The Maritime Co-operator, which is the official organ of the cooperative movement in the

Maritimes. I mean, each member society.

BY MR. PARKER:

Q. We will come to what they get in return. What do they put in? A. I can't say they all do that. There are two conditions for membership.

Q. Some are asked to pay 8/10 of 1 per cent? A. Yes.

Q. On what basis do you collect the money? A. The others contribute whatever they can afford.

Q. They are their own judge as to what they can afford? A. Yes. They are the smaller ones.

Q. But the bulk pay 8/10 of 1 per cent? A. No. The bulk pay what they can afford.

Q. And it is purely their own judgment as to what that is? A. Yes.

Q. How much have you taken in up to date by way of cash? A. Since the organization of the union, approximately \$7,000, a little more or less.

Q. From what other sources does the society receive its revenue? A. Contributions made by the Cape Breton Co-operative Services and Co-operative Wholesale.

Q. On what basis do they pay? A. They just make a grant.

Q. Is the grant included in the \$7,000? A. I have not the exact figures, but it would be in the vicinity of \$2,000.

Q. Any other sources of revenue? A. The United Maritime Fishermen make a grant.

Q. How much? A. Exactly how much I don't know. I think it would be around \$100 or \$150. I have not the exact figures here.

Q. What does this union do? Having been formed and having got members, what do they give to the members?

THE CHAIRMAN: Do you receive grants from public bodies?

THE WITNESS: Not from any public bodies, no.

BY MR. PARKER:

Q. What does the union do for its members in the way of services? A. The union carries on educational work throughout the whole province, cooperative educational work.

Q. The member in Cape Breton would not get much value from an educational campaign carried on in Yarmouth.

A. The cooperative in Cape Breton is the result of educational activities out of which even the union itself has come. The cooperative in Cape Breton would not be there if the union did not carry on educational work.

Q. But the union did not exist when the cooperative in Cape Breton was established. When was the cooperative in Cape Breton established? A. Some of these were started five or six years ago.

Q. And this union only had its birth in July 1944. How can you say that the activities of the union occasioned the birth of the others? A. You have to go back further to the extension department of St. Francis Xavier, which started an educational programme in 1929 and has carried on that work ever since. All the cooperatives we have in the province today -- well, not all but most of them -- are the direct result of the educational programme that has been carried on, and the union is a part of that development.

Q. I thought you said that the establishment of these cooperatives in Cape Breton resulted from the activities of this union. A. Not the union itself.

Q. Of those interested in the movement generally?

A. Yes.

Q. Let us get back to what this particular union will do. You started to tell us about the Maritime Co-operator. A. Yes.

Q. Each member gets a copy of that? A. The society that contributes 8/10 of 1 per cent out of sales is entitled to a subscription to the Maritime Co-operator for each member of the society, also, membership in the union and the services of field workers.

Q. What do they do? A. I would have to give you some idea of that.

The Commission adjourned until 2.00 p.m.

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The Commission resumed at 2.00 p.m.

BY MR. PARKER:

Q. Mr. MacIntyre, at the adjournment you were setting forth the things which the union did for its members, the things they got in return, I suppose, for the fees paid to the union, and you told us about the subscription to the Maritime Co-operator for each individual member of each society. A. Yes.

Q. In addition to that, what other services does the union render? A. They get membership in the union and the services of the field workers.

Q. What services do they render? A. We have the province sub-divided into five zones with a full-time field worker in each zone and his work is to organize study clubs and wherever possible organize new cooperatives if the people are ready for them and give a certain amount of supervisory work and assistance in the management of the cooperatives that are there now, so that he is always there when needed.

Q. How many men are employed in that work by your union, roughly? A. This work is integrated with the extension department.

Q. How many men have you employed as field workers? A. At the present time there are two employees.

Q. Paid a salary? A. Yes, but not from the union.

Q. Who pays them? A. I wish to correct that. They are paid by the union.

Q. Plus travelling expenses? A. They are assistants in the office.

Q. How are they field workers if they are in an office? A. Field workers are paid by the extension

department of the University in connection with the cooperative union.

Q. Does the cooperative union have charge of the extension department of the University? A. Yes.

Q. A word about your own duties. You say you are educational director in the employ of whom? A. I am field secretary for the extension department, loaned to the cooperative union to build it up and put it in a position where some day it will take over the functions of the extension department.

Q. Who is your employer? A. The extension department of St. Francis Xavier.

Q. That is, in your capacity as director? A. Yes.

Q. And in your capacity as field worker? A. It is the same work.

Q. You draw your pay from the same source? A. From the extension department.

Q. What is the relationship between the extension work and the department of the University? A. It is outside work.

Q. Is distinct from the work carried on by the University itself? A. Yes.

Q. This brief was prepared by the nine directors?
A. By a committee of three.

Q. Who were the three? Were you one? A. Yes.

Q. And who were the other two? A. The Rev. J.D. Nelson MacDonald, who is president of the cooperative union.

Q. Is the Rev. Mr. MacDonald connected with the University? A. No. He is President of the Nova Scotia Co-operative Union.

Q. Has he any other full-time job? A. Yes. He

has a full-time job. I cannot be correct about that. I think it is more or less part-time. He has his own congregation to look after and he does this in addition.

Q. Who was the third member of the committee? A. Mr. Neil Macdonald, President of British Canadian Co-operative Society.

Q. You three were appointed a committee by the board? A. There were three on the working committee. Well, there were six and from those six three of a working committee were appointed. If you want the six I will give them.

Q. The six include the three you have already mentioned? A. Yes.

Q. And who are the other three? A. J.H. McKeen, General Manager of United Maritime Fishermen, R.J. MacSween, Inspector of cooperative societies, whom you heard this morning.

Q. And who is the sixth one? A. J.J. McKinnon, Chief Auditor for the province.

Q. How was the document compiled? Each of you took a section and drafted it and did the committee then go over it, or did someone act as draftsman? A. As I have said, from the six a committee of three were appointed, the Rev. Mr. MacDonald, Mr. Neil Macdonald of British Canadian and myself. The committee sat down with Mr. Hackett, Associate Counsel, and drafted the brief and then the document was submitted to the committee, the full six.

Q. And they approved of it in the form in which it is today? A. Yes, and they in turn submitted it to the nine directors.

Q. And the nine included some of the six? A. Yes; and it was approved by them.

Q. Altogether, how many people saw this brief before it was filed? A. I believe the nine saw it and approved of it.

Q. Apart from that, none of the individual members of the society, as far as you know, have seen the document or know its contents? A. They probably know it.

Q. But not in the sense of having sat down and read it? A. No, but they know the principles.

Q. Do they know all the principles that are set forth in this document? How do you know that they know the contents or have approved of the brief? A. How do I know they approved of it?

Q. Yes. A. By the fact that they appointed the board of directors to do the work for them and they set up the movement for them.

Q. Anyhow, that is how it came into existence?
A. Yes.

Q. Take page one. There are a lot of statements of fact in this brief. Are you here in a position to say that all these facts are true? A. I would rather refer that to the associate counsel who was responsible for the research work in preparing the brief.

Q. I cannot do that very well. Can you back up any of the facts stated? A. The citations?

Q. No, the facts. I will give a sample of what I mean. Read the first page. You say in the second paragraph: "They saw conditions going from bad to worse to the extent that in the Spring of 1936 over one million people in Canada were dependent on Government resources for the maintenance of life." Who is prepared to tell the Commission he knows that is true, and what is the

source of that information? A. I don't know the source of it.

Q. You don't know whether it is true or not? A. I am pretty sure it is.

Q. What makes you pretty sure? A. Because I happen to have gone through that period myself.

Q. In what way did you arrive at that figure? It would be as easy to say two million as one million, unless you can show me where you got your figures. A. I am not prepared to show you that.

Q. You don't know anything about it. You continue: "They saw prices to primary producers and the wages of labour forced to a disastrous minimum. There was bitter complaint of exploitation." What do you know about those two statements? A. I know that is true.

Q. Prices of what? A. Commodity prices, fish, for instance.

Q. What was the minimum? A. The minimum in those days was 50 cents a hundred pounds.

Q. Who were the people you are referring to as making bitter complaints of exploitation? A. The fishermen.

Q. Anyone else? A. I would rather leave that. It is true of fishermen and fairly true of other occupations.

Q. Do you know whether it was true of fishermen?
A. Yes.

Q. How many fishermen? A. It was true of fishermen in the Maritimes.

Q. How many did you ever come in contact with in that period, only the group in your own community? You would not take in Nova Scotia? A. I had contact with many communities on the eastern shore of Cape Breton Island.

Q. That is the type of facts that are set forth here which I am asking you to establish, to tell us whether you are prepared to say that these statements are true. At the bottom of the page you say: "Finally" -- as a result of what you have stated -- "the Federal Government, in an effort to get at the facts, appointed the Royal Commission on Price Spreads to examine the situation." The question of exploitation? Is that what that Commission was appointed for?

A. That was my impression.

Q. Where did you get that impression? A. It was general at the time.

Q. Did you ever read the order under which they were appointed? A. If I did, I have forgotten it.

Q. Was that clause put in the brief at your suggestion? A. No; we all put it in and approved of it.

Q. Approved of it whether you knew it was true or not? How did you know it was true? A. Because I know it is true. We did have a depression.

Q. "The Commission's inquiry revealed unmistakable and ample evidence of widespread exploitation of wages to workers, primary producers and consumers". In support of the statement you make in that paragraph you quote from the report? A. This is by our counsel.

Q. It is presented by you and the statement is made by your union through somebody. In that paragraph, beginning at the bottom of page one and continuing on page two, you make that statement, and having made it you quote from the Price Spreads Report to back up your assertions?

A. Yes.

Q. Can you point to a single word in that quotation that bears out the statement made above? If so, tell me

which one it is. A. Well, if we --

Q. Not "if". Point out to me if you can any statements in that quotation that support or back up the statement set forth in the brief. A. Well, we take it that a Commission appointed by the Government to investigate the conditions that obtained at that time knew what they were talking about before they put such a statement in their report. I take it for granted that they knew what they were talking about.

Q. I take that for granted too. A. That is all I have to say about that.

Q. And that is the only answer you care to make?

A. Yes.

MR. FRANCIS: In the second part of the quotation below it is made abundantly clear.

BY MR. PARKER:

Q. Go on to the next paragraph: "As a result of their investigation the Commission saw fit to draw to the attention of the Canadian public some possible ways in which the conditions revealed could be ameliorated, and under this heading, referring to the cooperative movement and its place in the distributory mechanism of the country, the report states." Have you read the Price Spreads Report? A. I did.

Q. The whole of it? A. At the time it came out.

Q. Have you reviewed it again? A. No. I read it once, and again I took it for granted they knew what they were talking about.

Q. This is an inquiry under oath and we are trying to get the facts. We cannot take too much for granted.

A. That is all I can say about that.

Q. From your recollection of that report, do you recall that there was a single word in it, either directly or indirectly, that suggested that the cooperative method of doing business should not be taxed? Was there any suggestion of the question of taxation as related to co-operatives? Was it mentioned in any shape or form? A. I would have to review it.

Q. You have no recollection of that? A. No.

Q. And you have no recollection of any evidence having been submitted to that Commission about it? A. No.

Q. You go on to say: "Thus the Commission's report bore out the general feeling among the people that they were being exploited." What do you mean by the general feeling among the people? What people, and how many people? "The people" is a wide term. A. That is calling attention to the condition of the people at that time.

Q. What people? A. The common people.

Q. What do you mean by the common people? A. Fishermen, farmers, workers, steel workers, miners.

Q. The so-called labouring classes of society, those engaged in physical labour? Is that what you mean by the common people? A. That is what is generally referred to as the common people.

Q. You used the term. I want your ideas. That is what you understand by that term? A. Yes.

Q. Then you say: "By this time, through the direction and leadership given by the extension department of Saint Francis Xavier University, the common people were becoming students of economics, and were shocked at the alarming toll that they had been paying for services being rendered by a system based on the profit motive." What do you in-

services of what kind? A. It has reference to marketing services, merchandising.

Q. What you are really referring to, I suggest, is the amount of money, dollars and cents, that they were getting for fish and other products they had to sell, and the price they had to pay for the things they had to buy. Isn't that what it is? A. Yes.

Q. Why not call it what it is, prices of commodities instead of services? A. You can call it what you like. Why go into all that when you can say services?

Q. They mean the same thing? A. They do.

Q. "They found that often there were serveral items of profit included in the price". Does it make any difference -- take the case of a consumer's cooperative -- does it make any difference whether these services are rendered by a cooperative society who hire offices, warehouses, stores, clerks, delivery trucks and whatever they have to have? Aren't they doing the same thing which you complain the middleman and other people do? All that work has to be done by somebody, whether it is done by an individual or a limited company or a cooperative. A. It happens that they find they can do it for themselves without hiring someone to do it for them.

Q. All of it? A. As much as they can.

Q. The ordinary family head does not operate a store. When he goes to a store he goes to buy. He does some physical act, the same as he does if he goes into a non-cooperative store, and the store has a manager, a bookkeeper and hired auditors and does all these things that an ordinary store does. A. These people find that they can provide the service themselves more economically by running their

own stores and eliminating many of the people in between.

Q. If that is what it means I have nothing to say. They can do these things cheaper than the others?

A. Yes.

Q. And they get the benefit? A. Yes.

Q. Without repeating myself, in the future pages of this brief where you talk about services -- the word appears many times -- you and I agree that it means, excepting when it refers to purely social matters, study and education and so on, buying goods from a consumer cooperative or selling primary products through a producer cooperative?

A. Yes.

Q. On page three you say: "The income of the person or body corporate is the object of the application of the Income War Tax Act." Why make that statement? What is your object? A. I can't answer that question because I have nothing to do with that. We have experts who will deal with it.

Q. You see no point in it yourself? A. There must be point in it or it would not be there.

Q. But do you see any in it? A. If I did not agree with it it would not be there. I believe it is correct.

Q. Go on to the next observation: "No change has been made in the opening clause of Section 3 of the Income War Tax Act since its enactment in 1917. There 'income' is defined to mean the annual net profit or gain or gratuity", and so forth. Do you make a distinction between income and net profit, or do they all mean the same thing, all these terms that you have used here? A. Yes. There is quite a distinction. Profit is something that is made in trading off some other person.

Q. And what is gain? A. Profit or gain. Profit or gain is something that one gets, making profit off another person.

Q. Let us follow that through. Take the consumer cooperative and bear in mind the question of mutuality which is discussed in the brief. I understand that in a consumer cooperative there are three sets of persons involved in the operation: first, the members of the cooperative society; secondly, the society, which is an incorporated body. These people go to the proper authorities and seek a charter, but before that society can do business with its members it must, in the third place, go on the open market and buy supplies? A. Yes.

Q. That is a business transaction and without that transaction they would have nothing in the store to sell? A. That is right.

Q. Therefore I do not follow you and perhaps you will be good enough to explain what you mean when you say that the business carried on by a consumers store is business carried on between two parties and no one else. As I see it, there are three distinct parties, everyone of whom is absolutely independent of the others, before you can carry on business at all. Isn't that true? Therefore the suggestion that you are only doing business between two persons falls to the ground as unsound? A. If I understand this rightly, this profit or gain has reference to a private business. Is that the way you understand it?

Q. I think it has reference to any person who is a taxpayer. That is what we are trying to find out, whether or not he is a taxpayer. A. Say I am in business and I sell to you and you buy from me; the difference between

the price you pay for the thing purchased and the price I paid for it is my gain. You want to know the difference between that and a consumer cooperative?

Q. Yes. A. Well, the difference is this, that the members of a consumer cooperative have pooled their earnings to provide for themselves, at cost those services we mention there. They buy from the manufacturer or the wholesaler.

Q. They buy from a cooperative body? A. But a cooperative society buys from the manufacturer or wholesaler.

Q. It is the cooperative society that makes the purchase in the open market? A. For the members.

Q. Isn't that what any man in business does? He buys things and puts them in his store to sell again to customers. A. The difference is that the managers set up the organization to provide these services for themselves.

Q. In order to buy these goods? A. To buy or get them wherever they can and to provide them for the customers at cost.

Q. You speak about two parties in mutuality. A. In the ordinary store the two parties are the one engaged in private business and the person he sells to, who has no interest in the business except that he wants to buy.

Q. And in the cooperative who are the two parties that carry on business? I suggest that there are three. You say there are two. Who are the two? A. I don't refer to a consumer cooperative when I say two.

Q. Then what are you referring to? A. I am referring to private business. There are two people involved there.

Q. Forget about private business. How many groups of people are there involved in carrying on a cooperative

store -- two or three? A. Whatever number of members there are.

Q. I treat them as one person, that is one group; and then there is the cooperative association itself.

A. And the association is an association of members.

Q. But that is a legal person. It has a charter and it can buy and sell and sue and be sued and do all the things a limited company can. A. An association of persons incorporated to do that job for themselves.

Q. It is a legal entity, a limited liability company.

A. As I understand it, the association is an association of people incorporated to provide those services for themselves.

Q. And what is an ordinary limited non-cooperative company? What is that -- an association of what? A. I don't know enough about law to answer that but I do know what a consumer cooperative is.

Q. You do not know? A. A limited liability private company? A profit company?

Q. I did not mention the word profit. You do not know the difference between the two? A. I know what a consumer cooperative is.

Q. What is a true cooperative? A. A consumer cooperative.

Q. We are not getting very far on that. Is there anything more you want to say? A. Other than to say that the difference between what they pay for the goods and what they obtain them for is savings effected as a result of association.

Q. Take the end of the paragraph on page three:
".....if one follows the principle of the least possible

disturbance of the natural development of industry, and the fact that Section 3 has stood unchanged for upwards of twenty-seven years seems to point to a degree of stability that could only have been achieved by a satisfactory statute." I do not know what you are trying to say there but I am particularly interested in the first part of it -- the principle of the least possible disturbance of the natural development of industry. I suppose you will agree that heavy taxation is of necessity a disturbance to the natural development of industry no matter under what method it is carried on. A. That was put in there by our associate counsel who understood the law on that matter.

Q. You do not know what it means, or what argument is to be drawn from it? A. I assume it is consistent with our cooperative principles.

Q. Whether you put it there, or whoever did, I do not care, but I am interested in the idea it expresses. The argument seems to be that there should be the least possible disturbance in the natural development of industry, and assuming that is a perfectly sound principle I am asking you this question: Is it not true that taxation, particularly heavy taxation, is a disturbance, or a hindrance, if you like, to the natural development of industry? Would you agree with that as a principle? A. I suppose that is true.

Q. But is it not equally true irrespective of the method by which business is carried on, whether cooperative or non-cooperative? It would be a heavy hindrance or handicap or obstacle no matter what the method might be? A. So far as cooperatives are concerned, they don't

object to heavy taxes.

Q. Answer my question. You can see no difference between the two? A. That is right.

Q. That is what made me wonder why it was emphasized.

BY MR. ARNASON:

Q. With reference to this paragraph, is it your idea that the income tax is the most suitable form of taxation? Is that the point you had in mind? A. Yes, that is correct.

BY MR. ELLIOTT:

Q. The least disturbing? A. Yes.

BY MR. PARKER:

Q. That is the form of taxation that should be adopted? A. It is the most equitable way in which taxes can be collected.

Q. At the top of page four you say: "To make this clear, to define the true nature of the standard followed throughout the years, to indicate the types and method of operation of cooperatives in Nova Scotia, and to evaluate the worth and place of cooperatives as strengtheners of the economic fabric of the nation, are the chief aims of this submission." That is correct? The chief object in making this submission is to show the worth of cooperatives as strengtheners of the economic fabric of the nation? That is your reason for coming before the Commission? A. Yes.

Q. I suggest to you that perhaps the matters on which you make your submission are matters that are not before the Commission at all and that perhaps you are in the wrong place. This Commission was set up to study one aspect of the question of taxation and not decide whether the cooperative method is a good or a bad system. That question is not before the Commission, as I understand. A. If that is

the case, it is too bad this came in, but it demonstrates the movement.

Q. Go on to the next section where you refer to the Fraser Valley milk case. You point out that the decision was rendered just before the amendment to the Income Tax Act, 1930, was put through and you seem to state, either directly or inferentially, that the reason for the passing of that amendment was because of that decision. Is that your argument -- that the amendment was passed to get around that decision? A. I don't know enough about that to say. I am leaving that.

Q. It is stated in this brief. Is that what you understand? A. That is what I understand if it is here.

Q. That is what you understand to have been the draftsman's intention? A. Yes.

Q. I do not know whether I asked you this question this morning; if not I will ask it again. If in fact cooperatives, as you know them, do not make any income and do not have any profit, then the special exemption section of the Income Tax Act is of no benefit whatsoever to cooperatives.

A. I believe it is so complicated that something should be done by the Commission to clarify the situation.

Q. Tell us what is complicated about it and what should be clarified. A. I am not familiar with the law but I know that if the provisions were clarified there would be no need of this Commission.

Q. What is your difficulty with the section? What is it that makes it difficult for your people? What bothers them? A. I have not made a study of it and I am not familiar with the law -- that was not my field -- but I do know there must be considerable doubt as to the appli-

cation of the existing law with respect to cooperatives and that the reason this Commission was appointed was to clarify the whole situation so that we would know where we were going.

Q. You do not know what the difficulty is but you do know there is a difficulty, only you cannot tell me what it is? A. That is right.

Q. Perhaps you will make the same answer to the same question on pages five and six. A. I wish to say, sir, that when you come to citations of law I will have to give the same answers as before.

Q. I understand that; but there is one thing I do want to ask you. You set out on pages five and six -- you are putting them side by side -- the American statute and the Canadian statute; and having set out the two statutes, in certain respects the same, and having quoted certain American authorities on the basis, I presume, of the American income tax laws, the inference seems to be that, therefore, the Canadian Act should be interpreted and construed and applied along the same general lines? A. Yes.

Q. Have you carefully examined those two statutes that you set out there? A. Except that I have read them.

Q. To see in what particulars they are alike and in what particulars they differ? A. I have read them casually and I have the assurance of our counsel that they are very similar.

Q. Did you read them closely in order to see in what respects they are alike and in what respects they disagree? A. I read them probably two or three times.

Q. Look at the last paragraph on page five dealing with the American statute. You quote: "Exemption shall

not be denied any such association", and so on. Will you point out in the Canadian statute what you consider the corresponding provision? A. I will not attempt that; it is too complicated for me.

Q. At the bottom of page six you talk about the non-profit and mutual nature of this type of operation, and there is a long quotation from another United States authority. There is one sentence to which I wish to draw your attention: "In so far as it has any hearing on the matter, benefits received by the members of a cooperative in the form of increased returns are evidence of its non-profit character". Do you understand what that means, or does it mean anything to you? You will see it on page six. A. I believe that, yes.

Q. You are talking about returns. A. Yes.

Q. And we have these returns in the cooperatives in this country? A. Yes.

Q. Would it not be quite impossible for the cooperative association to make these returns or any returns if it were not for the fact that the cooperative association, having secured its charter, carries on trading transactions as a result of which it accumulates certain amounts out of which it can make returns, bearing in mind that it has already dealt with the goods involved on the going price -- either selling them at the regular retail price or, in the case of producers, taking them over and paying the going price? How could these returns have come into existence but for the fact of the incorporation of the cooperative association and the further fact that that society carries on transactions out of which it acquires or accumulates or secures or obtains something a little more than it cost to carry on? A. Can I make my own explanation?

Q. Yes; use your own words. A. John Jones and I and others decide to buy the things we need and to buy them at cost price and we pool our resources and send one of our number down to town to buy these from the wholesale or the manufacturer and to bring them to a certain point. We agree among ourselves not to disturb the price structure accepted by private business and we pay those prices, and after all expenses are deducted and provision is made for necessary reserves, whatever surplus is over represents the savings on the transaction. That represents savings and not profit because we have not sold to someone outside ourselves but we charged it back to ourselves on the basis of the amounts we have pooled. Therefore it is not profit because we have not exploited anyone or taken profit from somebody else. We repay to ourselves the difference between the cost of the thing purchased and the price we paid for it, which is the price established by private profit business.

THE CHAIRMAN: Would you say precisely the same if someone were interposed between your group and the vendor in the form of an incorporated, legal entity separate from the group?

THE WITNESS: I don't see how there could be someone interposed between them because we have gone direct from the retail unit to the wholesale, or if the members had their own wholesale they would have gone to it.

THE CHAIRMAN: Why does the cooperative seek incorporation?

THE WITNESS: In order that it may have the right and the protection of the law in doing business.

THE CHAIRMAN: It gets the benefit of the law by

incorporation -- and there are several distinct benefits?

THE WITNESS: It certainly does, yes.

BY MR. ARNASON:

Q. In the illustration you have just used you refer to transactions on the part of members of the association?

A. Yes.

Q. Touching the matter in regard to which Mr. Parker was questioning you, namely, the returns, what is your opinion as to that portion of any savings or earnings which may arise from business done with non-members? A. I see what you mean. That portion of the surplus has a right to be taxed.

Q. That is your opinion? A. Yes, because it is a gain made from someone who is not a member of the organization, and therefore the members have no right to that particular portion of it and it has a right to be taxed by the state.

Q. Following that up, you say it has a right to be taxed because, by trading with non-members, the members make that gain? A. That is right.

BY MR. PARKER:

Q. Not the members, but the corporation? A. That is a gain, not a saving.

Q. To follow that up, suppose a cooperative association were to distribute the earnings among the non-members at the same rate and on the same proportionate basis, in relation to their purchases, as they do with their own members, would that alter the situation? A. Yes, that would alter the situation. There the gain would be distributed to the people; in fact, it would not be a gain but savings effected by non-members, the difference going

to the proper people.

Q. Why did you withdraw the word gain? What bothers me is why it can make any difference what you do with the gain or savings or profit, how the nature of the thing handed over can be changed according to what you do with it? I have put that question to a number of witnesses.

A. The word gain comes from making a profit on some transaction you have with some other person, when you retain that gain yourself and do not pay it back to that person. That is a gain and he becomes the loser by that amount.

Q. You said something a moment ago on which I want to ask you a question. Perhaps you mentioned it only casually, but I call your attention to it. You said it was not like a private business where a transaction is entered into and the man who gets a profit takes something from somebody else. Do I understand you to say that in ordinary business it is impossible for a trader to make a profit except on the basis of taking something improperly from somebody else? That is what I understood your statement to mean. A. I suppose it depends on the nature of his business. There are various ways in which people can make a profit and a personal gain -- the stock market and many other ways -- but I am thinking in terms of services and of the individual who gives service to a group of people and who is not distributing back to the people the gains he makes. In the consumer cooperative the surplus is distributed back and there is no gain.

Q. Are you at all familiar with the way in which the so-called chain stores carry on business? A. I know nothing of them.

Q. Like the British Canadian, they have six or seven

branch stores and the central buys on behalf of all of them? A. The British Canadian is not a chain store.

Q. What is a chain store? A. A chain store I understand to be a corporation that opens branches at points where those who conduct it think it is good to do business so as to make a gain. They open a branch at such a point and do business there for the owners of that chain store. But the cooperative society does not do that. They open a branch at that particular point because the members there, in their annual meeting, ask that that be done in order to provide them with a more efficient service at that point than they would otherwise get.

Q. Take an ordinary group of chain stores that buy from a central buying agency. They buy cheaper than they would if they bought individually? A. Yes.

Q. And what is the result which they acquire -- is it savings or profit? Is it savings or gain? A. A group of chain stores pool their buying power so that they may acquire a saving for themselves. Is that your question?

Q. Yes. Does not that enable the chain store to make more profit? A. I presume it would.

Q. What is the difference between that and your method? A. The only difference is that the owners are the people who effect gains and savings for themselves.

Q. It comes back to the old question as to how and on what principle you argue that it makes any difference what you do with the same money so far as the question of deciding whether that money is savings or profit is concerned. A. One group exploits a large number of people for its own particular benefit, whereas consumers on the other hand go into business to serve themselves at the low-

est possible cost.

Q. Turn to page seven. You have a heading in the middle of the page, "Consideration of elemental justice in the taxing statute." This I take it is legal argument, but there are a couple of statements at the bottom of the page, one of which is a repetition of what you have said before, that taxation should create the least possible disturbance to the natural development of industry. You say: "Taxation would be immoral in its effect if it diverted attention from labour, from habit of saving, or discouraged self-help, education and development." Can you handle that one or do you refer that to somebody else? A. I would rather leave that to the philosopher who put it there.

Q. I would like to see him. Who is the author of that one? Is he a legal or a moral philosopher? A. Our associate counsel, I suppose, can answer that question.

Q. But you do not know what it means? I am trying to find out what the brief adds up to and I cannot understand that. This Commission wants to make some recommendations on the question of taxation and it does not wish to recommend a system that is immoral or one that is immoral in its effect. You say that taxation would be immoral in its effect if it diverted attention from labour, from habits of saving, or discouraged self-help, education and development. Pick out one of these necessary and desirable phases of life and tell us in what way taxation would have an immoral effect upon it. We cannot understand them all; that may be too much. A. I am not a philosopher.

Q. Neither am I. You say that taxation would be

immoral if it discouraged self-help. I take it you mean that taxation has the effect of discouraging self-help.

A. I think so, if it were carried on to the degree where it would do that.

Q. Everyone will agree with that, but in principle does not taxation, as applied to ordinary non-cooperative business, have as great a tendency to discourage self-help, if it does, as when applied to cooperatives? A. I would not agree with excessive taxation of private companies. Equitable taxation is what we want, whether it is a private company or anything else.

Q. In either case, if it were excessive it would discourage one just as much as the other? A. Yes.

Q. Let us take the next -- you may have to pass this to someone else. You say: "This principle is recognized in the non-taxation of cooperatives." What do you mean by that? What principle is recognized? A. I will have to pass that on too.

Q. Perhaps we can dispose of the whole brief.

A. I think I have demonstrated that I don't know anything about some things in it.

Q. At the top of page eight you give quotations which, notwithstanding the fact that they are legal, I must ask you something about. You quote one of our Canadian judges: "A law imposing taxation should always be construed strictly against the taxing authorities, since it restricts the public in the enjoyment of its property." All lawyers have heard that principle enunciated; perhaps it is correct. "The taxing laws are not to be extended beyond the clear import of the language used, and the powers granted to the officers charged with their execu-

tion must be strictly pursued." I ask you if that same principle as set out there, or some other principle of interpretation, should be applied in construing the exemption clauses as well as the taxing sections.

MR. FRANCIS: I know my learned friend will not feel happy unless I take the liberty of interrupting once in a while.

MR. PARKER: I am always happy, sir, to get the benefit of your opinions.

MR. FRANCIS: A taxing statute is strictly construed, and the onus is on the taxing authority to show that the person to be taxed comes within it; but once a person is covered by the statute, if there is an exemption then the onus is on that person to show that he comes within the exemption: That is my recollection of the rule laid down by Maxwell. Our point is that it is not income at all and therefore the question of exemption does not arise.

THE CHAIRMAN: There is no benevolent interpretation of statute.

MR. FRANCIS: The whole argument of the brief is that reference to this as an exemption involves a misnomer.

THE CHAIRMAN: The witness in the box does not take advantage of 4(p) in any event. He says that cooperatives do not make profits and are not taxable and therefore do not need 4(p).

MR. FRANCIS: He did say that the confusion was such that he felt that something should be done about it.

THE CHAIRMAN: By way of clarification. It is a legal question in any event.

MR. PARKER: Perhaps it is my fault. It is a legal statement that appears in this document, but the witness is

put forward as sponsor of the brief. However, let us go on to the next paragraph. Having quoted the authorities we have been discussing you make this statement; "If this were done, it would alter the whole principle of the present act, as it is well settled that patronage dividends are not income." Tell me by whom that has been well settled. If we would settle that, a lot of our troubles would be over. Who has settled that question, where was it settled, when and on what terms was it settled?

THE WITNESS: I cannot answer that.

MR. PARKER: Is it too much for you?

THE WITNESS: Yes sir; it is too much for me.

MR. FRANCIS: Too much for the House of Lords.

BY MR. PARKER:

Q. I come now to the top of page nine -- I partly covered this before -- where you say: "It is trite to say that trade or business required two distinct contracting parties, and a person cannot make a taxable profit by dealing with himself." That brings us back to what we were considering a few moments ago. Your evidence today is based on this statement, that you make no distinction between the members of the association and the legal entity, the association itself, and they are one and the same party so far as taxation is concerned. Is that your argument? A. I think that is correct.

Q. That is what I understand it to be, and starting with that foundation you argue that it is impossible to make a profit? A. Out of themselves.

Q. It is the way they do business? A. Yes.

Q. But my point is that as between the members themselves and the corporation, that is only part of the trans-

action; they do not carry on business just between the corporate body and the members; there are three parties involved, namely, the members themselves, the legal entity, and the rest of the world from whom they buy their goods or to whom they sell their own products, in the case of the producer. Do you follow me? A. Yes, I think I do. The consumers set up machinery to provide themselves with goods and services and they save for themselves the profits that would otherwise go to people who were in business for private gain. That is the only answer I can give on that point. It means exactly what it says, that a person cannot make a taxable profit by dealing with himself.

Q. But according to the cooperative method that is not what takes place. They do not simply do business with themselves; they do business through the medium of an association between themselves and a third party. However, we will not delay on that point. Turn to page twelve. You make a quotation from John W. McConnell of New York University who writes: "The goal of the consumers' cooperative is to increase the members' real income by securing commodities of high quality at reasonable prices." They can only accomplish that purpose, can they not, by reason of transactions carried on by the company? It is through such transactions that they are able to attain that goal? A. Yes.

Q. You agree with that? This writer says that the goal is to increase the real income of the members by securing commodities at reasonable prices "mainly through the direct purchase of specified products, thus eliminating the costs of advertising and the middleman's charges." A. I agree with that, yes.

Q. But do you agree with my suggestion that that can

only be attained as a result of trading transactions and the increased earnings made available by reason of the company carrying on business? A. By setting up the machinery on these cooperative principles.

Q. Go to the middle of the page. The quotation I have just given you comes under the heading, "The Essential Nature of a Cooperative Society." Whose views are these? After quoting Mr. McConnell, the brief makes certain statements. They are not quotations. Are they your own views or are they the philosopher's, or the views of legal gentlemen? In a word, who prepared all this? A. They are not mine.

Q. Have you read them carefully? A. Yes.

Q. Do you approve of them? A. Yes.

Q. Take this one: "Persons associate of their own free will in order to satisfy needs of a similar character by means of an undertaking carried out in common." I suggest it would be more apt if you used the word wants instead of needs. They want more money, better things in life, a better income. A. Does that change the principle?

Q. I think it would make the principle a little clearer if you used the word wants. A. That is unfortunate; but so long as it does not interfere with the principle I think it is all right.

Q. It is your brief we are talking about. Would you not say that the word I suggest would more aptly express your views? A. No; I think it is all right as it is.

Q. ".....by means of an undertaking carried out in common." What is the difference between that and the enterprise of twenty-five men who have a little capital and form a company to supply their need, their need being more money? A. But the need in our case is to get more value for the

dollars we have to spend. The need in their case is to make more dollars than they have now, and make them out of somebody else.

Q. And what do they want that greater value for, so that they will have more to spend? A. The needs of the one group and the needs of the other group may be different. I am speaking of the group I am familiar with, and their need is to make their dollars go further. That is what they are trying to do. A. Again you say: "The association is open without restriction to all persons on whom it can confer a benefit." I suggest to you that that is true in no sense. A. I don't agree with you.

Q. It is not open to everyone on whom it can confer a benefit. A. Yes, it is.

Q. Then how do you draw the line between these and others on whom you cannot confer a benefit? A. If a millionaire wanted to join the association we could not confer a great benefit on him.

Q. Why not? Could he not get his groceries cheaper? A. In the first place, he would not need it.

Q. That would be for him to say. You are not going to set up cooperatives and judge the needs of everyone else in the community, are you? A. Perhaps that was not a good example.

Q. I would not think so. A. If he with his millions wanted a little addition to those millions --

Q. No; but suppose he wants his groceries cheaper? A. Yes. He wants his dollars to go further just as we do and he wants extra savings to add to the other millions that he has. Possibly we would admit him on that basis as a consumer.

Q. Do you think that is a good answer? A. If he was sincere and honest about it I think we would consider him.

THE CHAIRMAN: You would not exclude a millionaire?

THE WITNESS: No. If he was conscientious about making a little saving we would let him in.

BY MR. PARKER:

Q. Turn to page 13, paragraph (a): "A cooperative undertaking will endeavour to obtain the capital necessary from its members to ensure its working (either in equal shares or in proportion to the services to be rendered to each member), while endeavouring to encourage saving and having recourse to such saving...." It is true that a good many cooperatives issue shares to raise money by the sale of shares the same as an ordinary company? That is right? A. Private companies sell shares.

Q. What does the cooperative do? How does it get rid of its shares? A. It does not get rid of its shares.

Q. What does it do? A. The shares are units. Shares in a cooperative really mean the capital provided by the members to give them that service which they require and it is not with the intention of selling them that they take shares. It is to provide the capital to give themselves these services, and their set-up has units.

Q. At any rate, in practice, the member cannot get his share until he pays for it or agrees to pay for it. That is the only way he can get it? A. Yes.

Q. And when he gets it the association has his money and that is capital. What difference is there between the way the cooperative gets its capital through the disposal of shares and the way in which the ordinary company acquires

capital? A. The shareholders put up the capital.

Q. Take the next paragraph. This one of the most important statements in your brief and the one to which I should like you to give your very best consideration: "The annual surplus or savings, if such exist, and in so far as it is not allotted to the reserve fund or to capital expenditure of a general interest, will be distributed among members in proportion to their dealings with the undertaking; that is, according to a practical rule which aims at making up the difference between the payments effected by members in the course of the financial year for services rendered and the cost of rendering these services." The cooperative can use whatever it wishes of these surpluses or savings and use it for capital expense? A. If the members say so.

Q. If the savings for the year in a big company amount to \$100,000, the directors can do one of two things: either make a generous return or use the money for remodelling a building, for instance. They might say, "There is that building down there that needs remodeling; we want to get ready for future business and we will spend fifty thousand or seventy-five thousand on it", which would be ordinary capital expenditure. Your suggestion is that the company should be allowed to do that and then return the difference? A. If that is necessary to give them the service they require.

Q. An ordinary company today could not do that? A. The point is this --

Q. So that you will understand my question, let me put this to you. An ordinary non-cooperative company, finding itself in that position and wanting to make a considerable capital expenditure, would be severely restricted. They would first pay a substantial tax to the Government and would

postpone these capital expenditures or finance them some other way. Isn't that unfair as between the two systems?

A. We have to understand that first. In the first place, you have a certain surplus and that surplus represents the savings effected by trading, and the directors put it up to the members and say, "Your savings effected as a result of the pooling of efforts are so much. Shall we rebate it to you on the basis of service given or shall we use it in connection with that building?" It would be as easy for the members to say, "Pay it back to us on the basis of our trading here and then we will pay it back to you as capital to buy that building." But the point is that they say in the first place, "Shall we buy the building or shall we pay the money back to you and you pay it back to us?" The principle is that that surplus belongs to the members, being savings effected by each individual member, which savings are pooled to make up the \$100,000, or whatever it may be, and the society cannot dispose of that money without their authority. So that they can do one thing or the other. They can pay it out to the members on the basis of trading and the members will pay it back as capital to buy the building.

Q. But in the event of their paying it to the members, then in so far as it increased their individual income it would be taxable? A. It was not an income.

Q. But in the hands of the members who get it?

A. No, it is not income.

Q. In the hands of the individual members the portion they get would be added to their individual income? A. No, because it is not income; it is savings effected.

BY MR. LERNASON:

Q. In the illustration which you have cited you refer

to a case where the members, either by by-law or at a meeting decide to use a portion of the surplus for expansion reserve for the purchase of a building, say. You also state that what they could do as an alternative would be to have the association pay all these earnings in the form of dividends and then the members would be asked to reloan a portion to the association? A. Yes.

Q. The question I want to ask is this. Instead of paying all these dividends out and then asking the members to reloan funds to the association, is it practicable in your opinion for the cooperative to credit to the individual members all of the reserves in such a way that the reserves so credited become a liability to the various members payable at some future or, shall we say, at some definite date? Would that be practicable? A. Let me see if I get the question right. The practice has been, of course, at the annual meeting to decide to allocate certain sums to reserves in order to maintain certain facilities and provide services.

Q. If I may intervene at this stage. What I am referring to now is what is known in certain parts of the country as the revolving door plan. Would it be practicable to revolve all your reserves? A. I believe it would. At the end of five or six years the amounts withheld would be repayable to the members.

Q. You would fix a definite period? A. Yes, a five or six year period.

Q. By by-law? A. Yes, to repay it back to the member

BY MR. ELLIOTT:

Q. I understood you to say that it would be just as easy for the cooperative to pay out its savings and then collect the money back from the members in order to make

such purchase as it might require. Do you really think it would be just as easy? A. Well, probably not so easy, but it could be done. That would be the logical thing, if it were all paid out, to ask to have it reloaned to do this work. It would be a liability against the society.

Q. But that would not be as easy and as simple? A. No.

BY MR. NADEAU:

Q. That is what you call loan capital? A. Yes.

Q. You mention that in your brief about the British Canadian? A. Yes.

Q. Is there any limit to the loan capital which a member may hold in the cooperative? A. Yes, there is a limit. The limit is set by the members themselves.

Q. In the by-laws? A. Yes.

Q. It would be interesting, if my colleagues agree, to have a set of the by-laws of typical cooperatives together with the financial statements.

MR. FRANCIS: We propose to tender the by-laws of the British Canadian, which is typical. Would that be satisfactory? The British Canadian Co-operative is being called next.

MR. NADEAU: With three or four consumer cooperative concerns. You have in this province wholesale cooperatives?

THE WITNESS: Yes.

MR. NADEAU: How many?

THE WITNESS: Two.

MR. NADEAU: We might have a set of by-laws of wholesale cooperatives.

MR. FRANCIS: There is one in Cape Breton and one in the eastern counties and they can be supplied to the Commission.

BY MR. PARKER:

Q. I suggested that the moneys, the savings in the consumer cooperative which you were going to use for capital expenditures, if not so used might be taxable in the hands of the individual members. I doubt if I was correct. When I put the question I was thinking particularly of the producer cooperative. Having paid the producer as he delivered his produce, if whatever balance might be coming to him, instead of being paid, were used for capital expansion, it would have to be taxable in the case of an ordinary company. The same principles apply to the producer as to the consumer, except that in one instance there is an overcharge and in the other an underpayment. Most of the cooperatives -- I think it is shown in that exhibit that Mr. MacSween put in -- take some of their savings which are held back and buy victory bonds. The British Canadian has \$150,000. It is a common practice to do that, and that in turn earns an income -- those investments. What do you say as to the earnings on those investments? A. I think that is subject to income tax, earnings of that kind.

Q. Under the Nova Scotia Act is it compulsory or optional to set aside certain reserves? A. Compulsory.

Q. Do you think that statutory reserve is taxable in the hands of the association? A. I forget what the practice is on that. Reserves in Nova Scotia are taxable with the exception of bad debt and depreciation reserves.

Q. Take the statutory reserve of five per cent. As you understand it, that should be taxable income in the hands of the association? That is not payable to the members, like patronage dividends? A. I am not quite clear there.

It would seem to me that if the Government provides for certain necessary reserves those reserves should not be taxed -- not if they are compulsory.

Q. On the one hand there is the provincial Government saying that they must be set aside and on the other there is the Federal Government demanding the tax? A. You had better go after someone else.

Q. Pass by the statutory reserves and take voluntary reserves, which they set aside of their own motion. What do you say about those, not including depreciation reserves?

A. I am not an accountant and I am not sufficiently informed to decide on those particular reserves so I would rather not answer that.

Q. These patronage dividends or savings, as this Commission has learned in other places, in some cases are paid back at the end of the year in which they are made or within a short time after the accounts are made up, and in other cases they are operated on the revolving door plan. You know what that is? A. Yes.

Q. Savings that might have been paid out in 1940 have been held until 1945 and in 1945 you pay out the 1940 amounts.

A. Yes.

Q. If they are merely allocated and not paid, simply held, should they be taxed? A. No, because they are savings that have been effected by the member and are allowed to remain in the organization to provide the member with certain facilities. They are his savings and not subject to taxation, or they should not be subject to taxation.

Q. One other question dealing with the matter of processing or manufacturing, and speaking of producer cooperatives. Take a man who has a dairy herd. Ordinarily he sells

milk or cream, but his cooperative starts manufacturing that into butter, cheese and ice cream and disposing of it in those forms, and in the process it employs labour and buys equipment to carry on the processing and manufacturing operations with the result that when it disposes of the finished product it has in its hands funds which represent not only an enhanced value of the original or primary product which it received, namely milk or cream, but an additional amount represented by labour, materials and management -- in other words, a manufacturing profit. Do you think that should be taxed? A. But he does pay taxes on his income.

Q. But the society. Is that something that should be taxed in the hands of the society? A. I don't get the question right. You mean the difference between the standard price he receives for his milk and the final price?

Q. From the manufactured product, butter, cheese or ice cream? A. No; it should not be taxed because he only received an initial payment and had not completed the process of marketing.

Q. But it did not have to be made into butter or cheese. A. It did not have to be?

Q. No. A. But somebody would have to do that.

Q. True: if you want butter or cheese somebody has to make it; but is it rational to say that the enhanced price after paying the accounts for that enhancement should be treated as the price of the milk? A. You might as well say to the producer that he should stop when he has bought a cow and should not milk her at all.

Q. I know the question is difficult and the line has to be drawn somewhere, and perhaps the simplest way of

drawing the line would be to keep the cows as pets like dogs. A. This particular farmer decided to dispose of the milk in the form of butter.

Q. No; it is the cooperative that decided that.

A. The cooperative and the farmer are the same people.

Q. That is my difficulty. Are they the same people?

A. Yes.

Q. Then if that is so why do you take the trouble and go to the expense of incorporating a company and bringing this unwanted child into existence. A. Who says it is unwanted?

Q. You say it makes no difference. A. They would not be in existence if they were not wanted. That is part of the operations of the cooperative. It is necessary to do the final job in marketing the products of labour.

BY MR. FRANCIS:

Q. Some reference was made by my learned friend to the fact that there were no specific recommendations in this brief. Is the Co-operative Union of Nova Scotia affiliated with the National Union? A. Yes; it is a section.

Q. There has been evidence in other provinces to the effect that general recommendations will be made on behalf of the various sections by the national body later on. Is that your understanding? A. That is my understanding.

Q. Is that the reason no special recommendations were made? A. Yes.

BY MR. ARNASON:

Q. Somewhere in the brief you say that it does not matter from the cooperative point of view if a cooperative is organized with or without share capital. I take it, from that, you mean that a cooperative can also be organized

with membership fees? A. Yes, or loan capital.

Q. Will you please tell us whether in your opinion it would be a more desirable practice in the future, in view of our experience to date, if these cooperatives were organized without share capital but with membership fees and financed by members through loan capital which they would have to furnish as long as they were members? A. I think it would be more desirable in the future to organize the cooperatives with loan capital.

Q. Would it be practicable? A. Provided that the loan capital was on the revolving plan you have mentioned, so as to stabilize the working capital of the society.

Q. Do you think it would be difficult to reorganize existing cooperatives on that basis? A. It is a matter of education -- to reorganize them, did you say?

Q. Yes, existing cooperatives. A. I have not given enough thought to that. I would not be able to answer that right now.

Q. But do you agree that it would be desirable if it could be carried out? A. Yes, I believe it would.

.....

NEIL MacDONALD,

President,
British Canadian Co-operative,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. I understand you are President of the British Canadian Co-operative? A. Yes.

Q. And it carries on business at Sydney Mines?
A. Yes.

Q. In the area surrounding? A. Yes.

Q. How long have you been President of this Association? A. Since March, 1939 and also previously from 1919 to 1923.

Q. You had two periods, from 1919 to 1923 and from 1939 to the present time? A. Yes.

Q. When were you first appointed a director? A. In 1915, but for a period of that I was off the board.

Q. What is the occupation of the majority of your members? A. The board members?

Q. No, the members of the association. A. About 95 per cent are miners, I mean people that depend on the mines, whether they work in the machine shop or around the mines, on locomotives or in the railway car shop. They are all pertaining to mines and depending on the mines.

Q. What is your occupation? A. Miner.

Q. How long have you been a miner? A. I have been a miner, working in the mine, for fifty years on the 15th of May next.

Q. How old were you when you went to work in the mine? A. I was born on the 8th of June 1883 and I was eleven years and eleven months old.

Q. And you have been working in the mines ever since? A. Yes.

Q. Just a word about the mining industry. I believe you are the first miner to be called before this Commission in Canada. Will you tell the Commission how much of your time approximately each week you contribute to your duties as President of the Association -- approximately, in hours. A. I want to speak the truth, the whole truth and nothing but the truth, but I would be safe in saying anywhere from 15 to 20 to 24 hours a week, taking in meetings.

Q. Are you still employed in the mines at the present time? A. Yes.

Q. What time do you get up in the morning to go to work? A. A quarter after four a.m. I get ready for work.

Q. How far do you have to go the office before you start to work? A. First you have to take into consideration that I am about two and a quarter miles from the colliery and I get on board the workmen's train at twenty to six, and that takes me to Florence colliery and we change for the mine and then we go from three to three and a half miles underneath the sea.

Q. Where you work all day is three to three and a half miles under the sea? A. Yes.

THE CHAIRMAN: This is most interesting, Mr. Francis, but I suggest that we get down to the matter more immediately before us.

MR. FRANCIS: It is relevant in this way, my Lord. Without any appreciable reward for their labours we can find people doing hard work and devoting their spare hours to the interests of their fellow men. That is the point, and it is very important in the argument.

THE CHAIRMAN: It has been brought out from Vancouver right up to this point.

MR. FRANCIS: It does not seem to have had any effect so far.

THE CHAIRMAN: I do not know what effect you expect just yet.

BY MR. FRANCIS:

Q. Very well. In the community with which you are familiar what were the worst years of the depression, in your opinion -- I mean the last depression. You have been through several, but the last one. A. I suppose from

about 1931 to 1938. In that period it was so bad that in the Sydney Mines district the Nova Scotia Coal and Steel Company went into liquidation.

Q. It has been suggested that during that relief period the cooperatives, in spite of not being taxed, did not make much contribution to the relief situation.

MR. PARKER: Who suggested it?

BY MR. FRANCIS:

Q. It has been suggested before the Commission several times. During those years, from 1931 to 1938, how much did your association distribute to your members by way of patronage dividends? A. For six and a half years, I think it was, we have returned \$539,964.

Q. Are you speaking of the period I am talking about? A. Yes.

Q. That was returned to these people during those worst years? A. Yes.

Q. How many members have you in your association -- 3,279? A. Yes.

Q. What is the composition of your board? How big is the board? A. There are sixteen board members besides myself.

Q. Are they miners or what do they do? A. Myself as President, I am a miner, Jackson is a miner; then there is the supervisor of schools. William Hadow is a miner, William Elliott is a miner, there is an electrical engineer, McKeen. There are several miners, there is a professor of music, and so on.

Q. Some suggestion was made that there was a similarity between a chain store and your association, which has eight branches? A. Yes.

Q. How did those branches come into being? Can you explain that? A. Yes.

Q. Well, why did they come into being? A. In the first place, we never open up a branch unless there are enough members in the locality to warrant it. We open up a branch so that we will be able to better serve the members in that locality.

Q. Do the members in the locality have anything to say about it? A. Yes. They come to the general meeting and make a request to the board and the board put it up to the general meeting.

MR. FRANCIS: The General Manager is present and if there is any point about the financial statement he will be available.

MR. PARKER: You are the President?

THE WITNESS: Yes.

BY MR. NADEAU:

Q. What is the population served by your stores, in the area served by the stores? A. Do you mean the entire population? In the different areas, I can give that where any branch is. In Sydney mines we have a population of 8,000; Glace Bay, 25,000; Dominion 3,000; Duncan 1,500; North Sydney 7,000; Bras d'Or and Florence 4,000.

Q. Are there many other retail stores in these districts? A. Yes.

Q. Private independent retail stores? A. Yes.

Q. Have you any idea of their number? A. No; I would not know. I could not say. I would not care to say.

Q. Is there a limit to the loan capital? I believe there is a limit to the loan capital a member may hold in your cooperative? A. The limit to the share capital is

forty shares. You can't have more than that. That is \$200 and after forty shares it goes into loan capital.

Q. What is the limit to the loan capital? A. No limit to the loan capital, only they don't accept any loan capital now, only the accrued dividends. If you become a member and you want to pay \$220, the thing to do is -- well, a new member, they would not accept it. They would only accept \$200, and the savings then could lie there and build it up.

BY MR. ARNASON:

Q. In connection with the last reply, where a new member comes in he can invest \$200 in share capital?

A. Yes, but it is not compulsory for him. There are two ways. At one time, maybe during the depression, you deposited one dollar and you became what was called a cash member and you paid for your goods as you received them and at the end of the quarter you received your dividend or returns on purchase and you could allow your dividends or surplus to go to build up the capital.

Q. Have you any provision in the by-laws whereby patronage dividends, over and above the amount which was required for a certain quota of share capital specified by the member, automatically thereafter go into loan capital account? A. Yes. We made that rule sometime ago. Everything over and above \$200 goes into loan capital so you can withdraw share capital or withdraw loan capital.

Q. The member decides whether his dividends are to be retained in loan capital? A. He gets a slip at the end of every quarter.

Q. And it is optional with him? A. Yes.

BY MR. PARKER:

Q. You are President? A. Yes.

Q. You do not take charge of the day to day management? A. I don't interfere with management, only the policy of the board.

Q. You attend directors' meetings regularly? A. Yes; it is necessary that we should. That is how the record goes down.

Q. How often are they held? A. Every Saturday night. Let us get this right so that you will understand. Five of the board are on the southern side of the water in the Glace Bay area. There is thirty miles between the Glace Bay area and the central, and the remainder are in the Sydney mines area. The Glace Bay delegates meet every Saturday night in Glace Bay and report to the central board once a month and every Saturday night the Sydney mines delegates on the north side do the same thing. Once a month the full board come together.

Q. Where does the full board meet usually? A. Sydney Mines.

Q. Where do they live? A. Sydney mines.

Q. And you give general directions and instructions to your General Manager at these meetings? A. At the board meeting we take reports. Our board is broken up into different committees and those committees meet during the week and report to the board meeting on Saturday night. We take reports from the different committees and the manager is not present then. But before we start to discuss the general reports the general manager is called into the meeting.

Q. And as a result of that you keep the General Manager instructed and advised on general matters of policy and it is up to him to see that they are carried out? A. Yes.

Q. Are you at all familiar with the way the accounts are kept -- I don't mean in detail but in principle. A. I would rather not answer that.

Q. Do you know whether the business done with members of the society is kept separate and distinct from the business done with non-members? A. Yes, it is.

Q. So that one can go to the books at any time and find out the amount of business done with each class of persons? A. Records are kept.

Q. When I use the word "member" does that mean the same as shareholder? A. That is the shareholder.

Q. You do a considerable amount of business with people who are non-members? A. No, we don't; we do more with the others.

Q. Anybody who comes in is served? A. Not always.

Q. Is anyone who is not a member rejected from the store or declined to be served with goods because he is not a member? A. No, but we do put restrictions on on account of the shortage of goods, and if you are a non-member you might go to your own merchant and get your quota there and then try to come and get a quota at the cooperative.

Q. You have to watch out for that? A. Yes.

Q. I am surprised that the members of a cooperative would do that. A. We are still dealing with the human frame.

Q. You have a substantial amount of share capital and until 1941 you were paying five per cent on that? A. Yes.

Q. And in 1941 you reduced it to four per cent? A. Yes.

Q. I was wondering why you did that in 1941. Why was

it? A. The country was calling for money at that time and some of the members might want to retain capital in the cooperative society and receive twenty per cent when the country needed money, so we reduced it to four per cent for that reason.

Q. Did you take part in the preparation of this brief?

A. Yes.

Q. Were you one of the committee? A. Yes.

Q. And you read it carefully before it received your approval? A. We went through it. We had it before the full board of British Canadian and went over it.

Q. Speaking of this particular society, the British Canadian, included in its assets you have investments amounting to \$150,000 in Victory Bonds? A. Yes. That did not come out of profits.

Q. Where did it come from? A. Take the balance sheet for 1939 and the balance sheet for 1944 and you will see that the share on loan capital increased by \$120,000 and that is on account of the shortage of goods, and the surplus of money. The people were leaving their capital in the society. The board had that under consideration -- what would be best, if you had ten dollars coming to you for dividends: You might take that \$10 and let it go to the four winds of the earth or invest it in Victory Loans for the good of the people.

Q. It was a good way, you thought, to get together and make a substantial purchase of Victory Bonds, whereas if it had been handed to the individuals it might not have been invested in that way. A. It might have been spent.

Q. It was in keeping with the propaganda put out by the Government urging everyone to buy all the Victory Bonds

they could and you felt it could be done better that way than by urging each fellow to buy some. Is that the idea? A. Well it is and it isn't.

Q. You put it your way. A. The Government needed money, that is the first thing, and we felt that as the member may need money after everything is over, if we give it back now maybe nine-tenths of it will be spent and neither the country nor themselves will have it. It is a protection to the membership.

Q. You are familiar with the reasons why this Commission was appointed, and the subject matter they are inquiring into? A. Fairly.

Q. And as one who has considered the matter, what are your views on the question which I am about to put to you? Assuming that the cooperatives make a profit, or income or whatever it may be, if it should be determined that these savings or surpluses are really in the nature of taxable income, would you say that the society would gladly pay that tax, or do you think that by reason of the nature and method of doing their business they ought to have exemption from the tax? Do you think they should have exemption on the merits of their type of business? Do you understand the question? A. Yes.

Q. What are your views? A. I would answer it this way. Would you think it is right that I should pay twice on the same dollar, or that ninety-five per cent of the members should pay twice on the same income?

Q. I do not know; I am afraid I cannot answer that. A. Well, that is it. In the first place, ninety-five per cent of the members of British Canadian are taxed at the source of their income.

Q. Each individual member? A. Yes. I will give it here.

Q. I know what you mean. A. And then if we derive savings through dealing with the cooperative society on account of the overcharge and that is taxed, it is paying twice.

Q. Where you may be wrong in your reasoning is that the tax which it is suggested that the cooperative should pay is a corporation tax. It is a separate person which has its own bonds before any money gets to the individual member, and it is not the same person who is being taxed twice. Do you agree with that? A. No. The profits are an overcharge on goods sold and it is returned at the end of the year, and if you are taxed on that it is double taxation.

Q. Is it any different type of double taxation, if that is what it is, as compared with the ordinary company, which first has to pay its tax and then pays dividends to shareholders, who in turn have to pay their tax? Is it different from that? A. Much different.

Q. What is the difference? A. The returns called profits -- well, that is divided per ratio of capital invested in the firm; but on the other hand, when you take profits returned per ratio of purchase, it is stated in the brief that since the inception of the society one-eleventh per cent is paid on the capital invested where ten-elevenths go back on ratio purchase.

Q. But the thing you are paying back to shareholders as interest on share capital, and the part to the members in proportion to the amount of business they do, both come out of the same fund? A. You are talking about interest too. I don't want to get confused with interest and dividend.

Q. Say at the end of the year you have \$50,000 of earnings or savings. You sit down and decide what to do and you pay to those persons who own shares in the company, out of the \$50,000, the equivalent of four per cent on the shares they have? A. Four per cent.

Q. I don't care whether you call it interest or dividends. A. That is interest on shares.

Q. Then the rest of it you pay to the members under the so-called patronage dividends. You have a single fund acquired by the same means and you apportion one-eleventh of it to one group and ten-elevenths to the other. My question is: What difference does it make to whom you pay it or on what basis you divide it? Each is getting part of the same thing which you have referred to as profits. A. First as to the tax on interest that is paid to the shareholders. You might be taxing someone that might not come under the income tax on account of his wages and having a large family -- and the greater portion of the members really don't come under the income tax. So if you tax them on shares in the society you put a burden on those that don't come under the income tax.

Q. But are there not many members in the ordinary cooperative society who, even with their patronage dividends added to what they receive, are still not in the taxable class? A. Yes.

Q. A lot of them? A. Yes.

Q. As President of the Company, will you give me your views on the question as to the effect of 4(p)? Are you familiar with that? A. No.

Q. It has been suggested to this Commission that, quite apart from the question whether or not cooperatives

can be said to have income, but assuming for the sake of argument that they have, nevertheless, in view of the good that they do in the community in the way of education, social work, recreational activities and all that sort of thing, in view of the contribution which the movement makes to community and national life, the imposition of income tax on cooperatives, if they are taxed at all, should be lighter in so far as their savings are concerned than the taxation imposed upon ordinary non-cooperative organizations. Would you make that distinction? A. Repeat that?

Q. It has been suggested by some people that, assuming that cooperative associations -- not yours particularly -- are taxable, nevertheless because of all the educational and other work they carry on in the community and the good influences they exert through study clubs and so on, they make such a valuable contribution to the state, to the community and the nation at large, that they should be exempted from the tax which other companies pay. Do you agree with that argument? A. I believe myself that the cooperative movement, speaking now of Nova Scotia, is doing the same sort of work, though not on the same scale, as the church; only the church is concerned with the spiritual welfare while the cooperative is concerned with the economic welfare of the people. Therefore they should not come under taxation.

Q. Even though they should be said to be earning a profit, that profit should be exempt? A. I don't think they do make a profit.

Q. I realize that that is your contention; but on the assumption that you might be wrong and that they do have income, you say that as a matter of fairness they ought not to be taxed in view of all the good things that I have

enumerated? A. No, but on account of being taxed before.

THE CHAIRMAN: Does your cooperative make income tax returns?

THE WITNESS: They make returns.

THE CHAIRMAN: Have you ever been assessed for income tax?

THE WITNESS: I would not come in that category. I know that the secretary makes out returns and swears to them. The General Manager this moment tells me that to his knowledge there is no income tax paid.

THE CHAIRMAN: You have never had an assessment?

THE WITNESS: No.

BY MR. PARKER:

Q. But you make annual returns? A. Yes.

BY MR. FRANCIS:

Q. My learned friend referred to the matter of double taxation. Will you turn to page 25 of the brief to illustrate what this would mean. It is near the top of the page, in the second line: "His earnings and the income tax deducted (typical of many miners) were as follows:" And then there is a table showing for the year 1944 earnings amounting to \$1,430.78 and tax \$145.45. Do you know whose that is? A. Mine.

Q. So that your earnings -- and you have been mining for fifty years? A. Yes, working in and around the collieries.

Q. Your earnings now are \$1,430 and you paid \$145.45 to the Federal Treasury? A. Yes.

Q. Assuming that the tax were the same on the undistributed surplus as it is for the ordinary company, what would it cost you in income tax for 1944? What were your

dividends in 1944? A. Around \$55.

Q. Reverting to the figures quoted, your earnings were \$1,430.78 and you deducted \$145.45? A. Yes. I deduct that to get what I receive, not what I received from the office but my income.

Q. Your income is \$1,285? A. Yes.

Q. And that is the income on which you have to live and provide for yourself? The proposal would mean this, that if your dividend of \$50 were taxed that amount on which you live now, after working fifty years in the mine, that \$1,285.33, would be further reduced? A. Yes.

BY MR. PARKER:

Q. I am sorry my learned friend mentioned this gentleman's personal affairs. Does that \$1,430 represent your net receipts or earnings after all so-called deductions are made? A. My other deductions come off that.

Q. This is what you would have had had there been no deductions? A. Yes. I pay so much a week for doctor relief.

Q. This is your income, it represents your wages without these deductions? A. Yes.

BY MR. FRANCIS:

Q. What do these deductions amount to? A. Fifty cents for doctor, thirty cents for hospital, thirty cents for relief society and thirty-six cents on unemployment insurance. Those are all deductions. I don't complain, because that is protection in case of sickness.

Q. You get good value for that? A. I do. I don't complain of that.

Q. Have you included the \$55 patronage dividends?
A. I should not.

Q. Do you usually show that? A. I can't, because

I have already paid on that amount. If you go across the street to a particular store and save ten cents on a package of cigarettes, would you include that?

Q. At any rate, you don't show that? A. No. I have already paid on that.

The Commission thereupon adjourned to meet on Tuesday, March 6, at 9.30 a.m.

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Halifax,
Tuesday,
March 6, 1945.

The Commission met at 9.30 a. m., Mr. Justice McDougall presiding.

MR. FRANCIS: It may be helpful to the Commission if I make a brief preliminary statement with regard to this submission. In the province of British Columbia there were seven transportation cooperatives and we adopted the practice there of calling an official from one representative association. In Nova Scotia there are seven cooperative housing associations and we propose, subject to your Lordship's ruling, to call a representative of one of the housing groups, the oldest one. The only difference is that in British Columbia the other six had adopted the submission. In this case it is not possible for the other six to adopt the submission so the representations are made only on behalf of the association that appears. There are several names that are involved here and it may assist if I point out that between Sydney and Glace Bay there is a settlement known as Reserve Mines. That will be the name that appears on the map. That is the place where this cooperative operates. In the settlement of Reserve Mines there is a group of eleven cooperative houses and that little settlement or hamlet, which is entirely cooperative, is called Tompkinsville. It was named in honour of Father Tompkins, who gave leadership in the early days of the cooperatives. Thirdly, the submission is made on behalf of the Arnold Co-operative Housing Corporation Limited. That is the name of the Association, the local name. It was named in honour of a housing expert, who assisted these men in the beginning, and it is called a corporation instead of an association

because it is under different legislation -- under company legislation. I thought that explanation might clarify the matter.

With regard to the submission, Miss Arnold, who studied cooperatives in the Old Land and who had a great deal to do with cooperative housing development in the United States, assisted in the formation of the first cooperative housing group in Nova Scotia, and later, for the guidance of other groups, she wrote a book on the Tompkinsville enterprise. Before that book was published it was submitted in manuscript form to the Board of Directors of the Arnold Co-operative and approved. All the members of the Arnold Co-operative are directors. There are only eleven, all directors and all members, so that it has been approved by all members. But it was at a meeting of the Board of Directors that the manuscript was approved. The book to which I have referred was published in the United States and it is useful in that it sets out the Nova Scotia legislation under which the cooperatives were established. It also gives the form of the laws entered into between the Association and the member, and the form of will which the member makes in order to deal with his interest in the cooperative in relation to his successors, and so on. That is all contained in the appendix to the book by Miss Arnold.

The brief submitted is very short and what we propose to do is to present the Commission with copies of this book. As I have said, it was published in the United States and we were not able to get ten copies but we have five for the Commissioners. All this material is set out in the book and if it would be acceptable to the Commission we would like to present the copies now.

One feature of this particular cooperative which will be of interest to the Commission on the taxation issue is this. In this type of cooperative, the houses are owned -- this will be put in evidence -- not by the individual member but by the Association. The Association leases the house to the member, and the member's equity or interest in the house is represented by shares. A question of interest arises as to the tax situation with respect to the rental paid by the individual member of the Association. As these cooperatives expand -- there are only seven groups now but there will be far more -- that question will arise. The income of the cooperative is by way of rental and not in the form of purchase price and that will be a matter of interest from the point of view of the Commission. It is another example of the manner in which cooperative members adapt themselves to differing conditions. It is also of value to have all this information, because the submission will be made later that it is in the public interest to encourage this type of Association.

Before calling the witness I might mention one point. In the pages of this book the name of Joseph Laben appears frequently. He was the first President of the corporation and he is now a director, as are all the members. He lived in one of the company houses and now lives in a cooperative house and he will tell the Commission of his experiences. We propose to call him.

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JOSEPH LABEN,

Director,
Arnold Co-operative
Housing Corporation,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. Mr. Laben, you are a director of the Arnold Co-operative Housing Corporation? A. Yes.

Q. How long have you been a director? A. Ever since its inception in 1938.

Q. You were at one time President of the Association? A. Yes, starting away.

Q. You were the first President? A. Yes.

Q. By whom was this submission prepared? A. A committee.

Q. Has it been approved by all of the Board of Directors? A. Yes.

Q. Are you authorized to present it to the Commission? A. Yes.

Q. What was the first step in your community that led to this cooperative housing development? Was it the study clubs? A. Yes.

Q. Tell the Commission briefly about the study clubs. A. In 1932 the Extension Department of St. Francis Xavier put on study clubs and an educational programme throughout the industrial districts and Reserve Mines was one of the places first approached, with very good results. As a result of the first study club there in 1933 the first credit union was organized and from that, in 1937, the first cooperative store was opened for business, and people who connected with these two cooperatives decided that they would have something of benefit to themselves, and housing was one of the things they had in mind. They thought

that cooperative housing would be ideal, and after studying for awhile they finally entered on a cooperative housing project.

Q. Before this development took place, would you describe a typical dwelling such as would be occupied by people who are now living in cooperative houses? Take your own case. A. The house I was living in had four rooms, two rooms downstairs and two upstairs.

Q. How big were the rooms? A. Ten by twelve.

Q. Was the location suitable? A. I would say it was most unsuitable.

Q. Why? A. There was no planning as to drainage. It was built in a very low location, dampness and so on, and that did not always help even to preserve the house, or for the health of the occupants.

Q. Was there any place to grow a garden? A. There was no land.

Q. Was there any basement? A. No basement; the houses were all built on sticks.

Q. Was there a toilet inside? A. Outside toilets.

Q. How was it heated? A. By a kitchen stove.

Q. Was it painted? A. Some of the coal company's houses were painted but mine was not.

Q. Were the ones that were painted attractively painted? A. No, very dark colours, utility colours, not for appearance or beauty.

Q. What rental did you pay for the house?

A. People who are members of the cooperatives pay from \$9 to \$12 a month.

Q. That is, for the Company houses? A. Yes.

Q. The sort of house that you have described?

A. Yes.

Q. When you commenced to study about housing did you find it quite a problem? A. Yes. We had no material to guide us.

Q. Was there any suitable material available at the time? A. There was no material of any kind on co-operative housing but we had various acts of the Federal and provincial governments and the Government of Nova Scotia, and we had some acts from the United States.

Q. You had to pioneer this development? A. I think that is true.

Q. What assistance did you get from Miss Arnold? A. She assisted us by teaching us how to plan our homes.

Q. By models and the like? A. First of all we sketched our homes with a rule and later on, after we were satisfied with that, we made cardboard houses and lined them up on the floor and planned a community that way.

Q. I would direct the attention of the Commission to page forty of the book opposite the photograph which gives an idea of how they went about this. Miss Arnold, I understand, had experience; she had studied cooperatives abroad and had special knowledge?

MR. PARKER: How does this witness know that? It may be all true, but why ask him to say something he cannot possibly swear to?

MR. FRANCIS: It is common knowledge.

MR. PARKER: Then let it go at that.

BY MR. FRANCIS:

Q. You had a great deal of work to do with Miss Arnold? A. Yes.

Q. Would you say from what you saw of her and the advice you received that she knew a great deal of this? A. I would say that she was a very efficient person.

Q. At that time about what was the income of the group that was interested? Take your own income. What was your annual income at the time you decided that you wanted better living conditions? A. About \$800. In 1937 in that district the average for the miners was \$800.

Q. Under this particular plan how many houses were built? A. About 78, I would say.

Q. No, but under this particular association I mean? A. Eleven houses.

Q. Do you live in one of these? A. Yes.

Q. Please describe this type of house. Have you a basement? A. We have a full concrete basement, with hot air furnace in my case, and downstairs three large rooms and a large pantry and upstairs three bedrooms and a bathroom.

Q. Turn to page 97 where the plans are set out, Mr. Chairman. Now I want to be very fair about this. In the country houses did you have electric light? A. The year we left the Company house the lights were installed.

Q. So that you did have electric lights the last year in the Company house? A. Yes.

Q. How do you heat your house now? A. We have a kitchen stove and a hot air furnace.

Q. Hot air furnace in the basement? A. Yes.

Q. How many bedrooms upstairs? A. Three bedrooms and a bathroom.

Q. Is the bathroom in the house now? A. Yes.

Q. Were the floors in the Company house softwood? A. Yes.

Q. What are the floors in the cooperative? A. Downstairs, partly hardwood. In the living room it is

hardwood and in the kitchen softwood.

Q. How much land have you in connection with each house? A. Three quarters of an acre.

Q. Is that arable land for gardening? A. We use it for gardening.

Q. Is there any community land in connection with this development? A. There are eleven acres owned in common.

Q. That is, for the use of the group? A. Yes. We have plans for a playground in the course of time.

Q. Who owns the house you live in? A. The Arnold Corporation.

Q. And under what arrangement do you live in the house? A. I have a lease of the house from the Co-operative.

Q. What does it cost you a month to live in that house? A. The actual payment on maintenance, interest, amortization is \$9.65 a month and we have outside that the Nova Scotia Housing Commission under which a member puts aside \$2.50 a month as a reserve fund in case of sickness or emergency or slack times.

BY MR. PARKER:

Q. That is in addition? A. Yes. That makes \$12.15 a month.

Q. What is your own financial interest in this house? What have you contributed by way of capital, labour and material to the house you live in? A. In the first place, when we started to build, money was scarce and a great number of members did not have any capital, so we had to go to a credit union and borrow the initial cost of the land, which was \$50 a member. We got that \$50

and the Commission have allowed us \$400 for our labour for building the houses, and \$50 was also contributed by the members in the way of purchase of other materials.

Q. Was that grant of \$400 made in the form of a loan?

A. That was our share. We borrowed \$1,500 from the Commission. They would lend 75 per cent of the value of the house and we put up 25 per cent. We had no capital but they considered our labour as part of our deposit.

BY M. NADEAU:

Q. Do you think that type of housing corporation would come under section 4 (y) of the Income War Tax Act? We would like to have your comment on that. It is on page thirty-six.

MR. FRANCIS: The point there, Mr. Commissioner, may be this. This is not under the Canadian system. This is under provincial legislation and 4 (y) refers to Dominion legislation.

MR. NADEAU: This is under provincial and not under Dominion legislation.

MR. FRANCIS: It may be that this Association is one of those against which assessment may be made as soon as it gets beyond the legitimate stage of building a house or two, which is apparently regarded as legitimate for cooperatives, taking the general argument across Canada.

BY MR. FRANCIS:

Q. Did you finish telling how you arrived at the equity you have in the house? A. Yes.

Q. A copy of the lease will be found at page 94. Is that lease, in general terms the lease followed by these housing groups? A. Yes.

Q. There may be slight changes, but that is the model?

A. Yes.

MR. PARKER: Are you putting in a copy of the lease with reference to this particular house?

MR. FRANCIS: Can you file a copy of the lease?

THE WITNESS: Not just now, but we can.

BY MR. FRANCIS:

Q. There are other groups, I understand, that follow the same pattern? A. Yes.

Q. How many? A. Six.

Q. Are you familiar with them? Have you visited them? A. Yes.

Q. Is there any association binding these groups together? A. There is the associated housing group. They meet frequently and discuss their problems such as book-keeping and so on and also they talk about the Act and legislation governing our scheme.

Q. Why are there not more of these groups? Why have not more houses been built? Can you give a reason?

A. When the war broke out the Government thought that money was needed for its purposes, and there was scarcity of materials, and so they advised us to lay off for the time being.

Q. The provincial Government of Nova Scotia is not now making loans for this purpose? A. Yes.

Q. Then there was scarcity? A. Yes.

Q. Will you outline briefly the benefits if any which you consider the members of this cooperative have received as a result of this housing enterprise? A. I would say there is a feeling of security and satisfaction among the members to know they have a modern home. Also they can carry on community activities among themselves, and there is an educational programme carried on, a lot of reading

material, and they help one another in different ways, canning and so on.

Q. Cooperative canning? A. The women do a considerable amount of canning. The men look after the gardens and the women can the vegetables and fruits.

Q. I understand that all eleven members are directors?
A. Yes.

Q. Among your group of eleven members living in Tompkinsville, what racial origins are represented?

A. Irish, Scotch, French and German.

Q. And what different religions are represented?

A. Catholics and Presbyterians.

Q. I want to ask you about the taxation privileges you receive from the municipality, if any. I notice in studying the Nova Scotia Housing Act that there is provision in that Act whereby the municipality can give some exemption to a group like yours. I would like to know in practice whether the municipality of Cape Breton -- what is your municipality? A. Cape Breton.

Q. Whether or not it gives any tax exemptions to your group. A. Yes. There is a partial tax exemption for a period of four years and then we are taken up to the average assessment in that vicinity.

Q. After four years? A. Yes.

Q. You are treated the same as anyone else then, but you are encouraged by way of reduction for four years? A. Yes.

Q. Now will you read your brief. A. Yes.

Our brief reads as follows:

"Brief to be presented on behalf of the Arnold Co-operative Housing Corporation at Tompkinsville, Reserve Mines, N.S.

"Reserve Mines lies about eight miles from Sydney on the

main highway which runs between the City of Sydney and the Town of Glaze Bay. It is not large enough to be an incorporated town and therefore, is in the Municipality of Cape Breton. The people of this community reside for the most part in houses owned by the Dominion Coal Co., Ltd., which were built over sixty years ago. This coal company operated No. 10 colliery but this mine was closed down about two years ago and the men transferred to other mines about five miles away.

"Nevertheless, the men still reside in the coal company houses. These houses are built in rows, are all identical and consist of two stories, without any basement. Two families reside in each house. They have a small yard with very little room to plant a garden or for the children to play in. It was only in 1931 or 1932 that they obtained running water in their homes. Prior to this, if you were to drive through this place you would see empty buckets hanging on the fence. The water was hauled by means of a horse and water wagon, from a hydrant at the outskirts of the town of Blace Bay, which is about a mile distant. The water was distributed so much per family and placed in these buckets.

"With the help of Saint Francis Xavier University Extension Department, Miss Mary Arnold, who had been Treasurer and General Manager of Consumer Co-operative Services of New York and who had also been Treasurer and a Director of the Co-operative League of the U.S.A. Consumers Co-operative Services, was brought to Reserve to direct a cooperative housing programme. A group of miners in this colliery district had wanted to start to build their own homes on a cooperative basis. Now, these miners wanted more than a home; they wanted land where they could plant and grow

their own vegetables for their winter use; land where they could raise animals for consumption and besides this, land where their children could play.

"A group was organized to study, save their money to purchase land, etc. Finally, eleven acres of land were purchased by the ten members of the club and an option taken on an additional eleven acres. Now it was necessary to procure the money to build these homes. The provincial government of the province of Nova Scotia had passed an Act in 1932 to encourage and promote better housing for the people of Nova Scotia. Amendments were made to this Act in 1937. It was from the Nova Scotia Housing Commission under this Act that 75 per cent of the finished cost of the houses was procured. The finished cost of each house was to be \$2,000. The other 25 per cent of the cost was provided by each member as follows: He paid the purchase price for his own acre of land, dug his own basement, purchased his own concrete and did all the rough labour in building his home. This meant that he supplied five hundred dollars' worth of the cost and the balance of fifteen hundred dollars was borrowed from the Government. This loan was to be repaid over a period of twenty-five years and the cost per member was as follows:

Interest at $3\frac{1}{2}$ per cent and amortization for 25 years over - 25 year period	7.47
Taxes	1.53
Insurance	.65
Reserve fund for sickness,	
Repairs, etc.	<u>2.50</u>
	<u>\$12.15</u>

"Therefore the rent paid by each for a month was \$12.15. This money was paid to one member of the

Corporation who paid the insurance, loan, etc. For this the members received a comfortable home, designed and built to the individual wish and fancy of each husband and wife.

"These men have increased the assessment of the municipality, increased the tax revenue but most of all they have helped relieve a critical housing shortage that was prevalent in this district. The initial success of the Reserve Miners has given other groups confidence and since that time six additional groups have been organized and have built homes on the same plan. Two of these groups are located in the town of Glace Bay, one in the town of Dominion and one in the city of Sydney. There are also two in Pictou county.

"This plan has unlimited benefits. It is possible for the group to construct a joint playground for their children and provide reasonable recreation and help a very prevalent thing today, namely, juvenile delinquency. It provided them with a better environment and therefore will make them better citizens. It also encourages both husband and wife for they now feel that this is their own. These are only a few of the benefits which make this project an asset to the community, province and country as a whole.

Arnold Co-operative Housing Corporation
Tompkinsville, Reserve Mines, N. S.

Per: Joseph Laben,
Director."

.....

BY MR. PARKER:

Q. On page two you speak of a housing shortage that existed in this community at the time this movement began. Was there any particular housing shortage there, such as the houses were? A. Yes; there was a shortage.

Q. I thought No. 10 Colliery was closed down and a lot of people had to seek work in the neighbouring mines? Is that true? Isn't that the case? A. Yes, but they did not move from Reserve.

Q. There was a shortage of Company houses, wasn't there? A. There was a definite shortage of houses in the mining areas.

Q. In Reserve Mines? A. Yes; in all.

Q. We are just talking about Tompkinsville. How were the people living? What makeshift were they adopting to make up the housing shortage? A. When a boy or a girl got married they had no place to go; they just lived with their parents.

Q. You speak in that same paragraph about one of the benefits to the community in increasing the assessment in the municipality. How much are these houses assessed for? A. \$600.

Q. And the first four years they are exempt from taxation? A. Partial exemption.

Q. How much? A. I cannot answer that question.

THE CHAIRMAN: Who owns the title to the land on which the houses are built?

THE WITNESS: Arnold.

THE CHAIRMAN: The individual has no title.

THE WITNESS: No.

BY MR. PARKER:

Q. It is the corporation that receives the benefit of the exemption? A. If the corporation receives the benefit the individual must receive it. It is not carried under the maintenance.

Q. It means that the monthly charges are that much less? A. Yes.

Q. You also spoke of community activities and study clubs. Was there anything to prevent these same people from organizing study clubs and having community activities while living in company houses? A. The same spirit did not prevail when we lived in the Company houses. We have a cooperative spirit now, we all know one another, and we have a common feeling of trying to do the right thing.

Q. But there was no connection between the shortage of houses and anything that would prevent these same people from getting together while living in Company houses and organizing study clubs? As a matter of fact, they were living in Company houses when the study clubs were organized? A. Yes.

Q. You also spoke of the variety of nationalities in the community, mixed religious beliefs and that sort of thing. I suppose there has been no change in that regard? There is exactly the same variety as there was while the people were living in Company houses? A. Except that in our case we have to depend on each other and are in daily contact.

Q. I realize that the individuals of the Association are closer to one another, but they are the same individuals? A. Yes.

Q. And they have the same religious beliefs and the same political leanings and everything else in that respect? A. Yes.

Q. It is true that Reserve Mines is one of the communities in Cape Breton where the mining industry has pretty well petered out? A. It is closed.

Q. It has been going downgrade as a community for some time. In fact, it only lived and prospered owing solely

to the mining operations carried on? A. That is true.

Q. It is a mining community, and the land in and around Reserve Mines is most unsuited to agricultural purposes? A. We had tests made of the soil.

Q. Do you agree that it is most unsuitable for agricultural operations? A. I don't agree with that.

Q. What is it suitable for? A. It is suitable for agriculture, provided the land is built up, and that is what we are doing. We have a part-time farmers' operation in Reserve which is building up the land, applying fertilizer and so on.

Q. I am not suggesting that there are no pockets where you can have a garden, but generally it is very poor agricultural country. Do you agree with that? A. Yes, considering other places.

Q. It is one of the poorer bits of agricultural land and that is almost invariably the case in Nova Scotia wherever you find coal mines. The very fact that there are mines in the locality makes the land unsuitable for agriculture? A. Yes.

Q. And this is a typical community in that respect? A. Yes.

Q. Years ago, perhaps when you were very small, people came from other parts of the country to seek employment at the mines? A. Yes.

Q. And a good many of them, I will not say poor people, but people with rather small means, came from remote parts of Cape Breton Island while a good many came from European countries as miners seeking work. I suppose you have no particular first-hand knowledge of the conditions from which they came? A. No.

Q. Whether those conditions were better or worse than the conditions they found at Reserve Mines?

A. That is right.

Q. The Dominion Coal Company was operating those mines? A. Yes.

Q. And it was that Company who, in order to make provision for their employees, built these so-called Company houses. A. Yes.

Q. These houses were made available for their men by the Company. I know they were not very fancy; I have seen them and you have lived in them; but they might be called typical miners' houses such as you will find anywhere in a mining country? A. Yes.

Q. And the rental charged the employees was, at the time we are speaking of, how much? A. From nine to twelve dollars.

Q. You have outlined the change that has taken place as far as you are concerned. Your name does not sound like a Cape Breton name to me. What part do you come from?

A. Germany.

Q. What part? A. Hamburg.

Q. You came here young? A. Two years old.

Q. You are a naturalized citizen rearing your family?

A. Yes; that is right.

BY MR. VAUGHAN:

Q. I know it is provided in the laws, but is the person living in the house permitted to keep the house twenty-five years or more? A. He is permitted to keep it as long as he lives up to the rules and regulations of the co-operative society.

Q. Suppose he does not like the house and prefers another. Can he change? A. Within the community?

Q. Yes. A. If a suitable change can be made with one of the other tenants, I imagine it can be done.

Q. But it is not easy to do that? A. He is quite satisfied. In our case where men and women plan their own homes, they are all satisfied and they would not want to change.

Q. These houses are written off in a period of twenty-five years. Who is the owner of the house after twenty-five years? A. We have not decided on that. We decided to give ourselves twenty-five years to think it over.

Q. It is a question to be decided when the time comes. A. Yes. The feeling is that we will continue under the cooperative scheme and after the twenty-five year period the houses will be owned by the cooperative.

Q. Charging rental? A. There will have to be some rental charged but it will probably be reduced.

Q. Ordinarily a person would pay less? A. We have a reserve fund of \$2,000 and that reserve is probably to pay off the houses long before the twenty-five year period.

MR. PARKER: I have not had an opportunity of seeing the lease. The question is, at the end of twenty-five years, if he is buying the house on the instalment plan, does it become the house of the tenant?

MR. FRANCIS: On page nine there is a copy of the will form used by members. It deals with the devolution of shares.

MR. PARKER: If a man dies he wills everything to the corporation. I thought my learned friend could state whether or not the scheme does provide that on completion of the twenty-five year period the house becomes the individual's house. The Government puts up 75 per cent.

BY MR. ARNISON:

Q. I presume it is set forth in the by-laws as to how the

surplus arising from the year's operations is distributed. There is so much for reserve? A. There is no surplus. We have no margin whatsoever. Each member pays \$12.15 a month and that is paid to the Commission. The reserve fund is to be used only with the consent of the housing commission and corporation.

Q. Would you say that one of the main reasons why you organized the corporation was because of the housing shortage? A. Definitely.

Q. When you were beginning to study ways and means of improving housing conditions, did you consider the possibility of an arrangement whereby, after a period of twenty-five years, the tenant-member would become the owner of the house? A. We have not given it very much consideration. We figured that we would have sufficient time, after living that way for twenty-five years, to get an idea whether we wanted to remain so or not.

Q. Would you care to express an opinion as to whether there would have been a considerable expansion in membership if the conditions had been normal? A. Will you repeat the question.

Q. Do you think there would have been a considerable increase in the membership of your Association if the conditions with respect to supplies and other factors had been more normal? A. It was becoming so that it was almost impossible to handle the people.

Q. I beg your pardon? A. It was almost impossible to handle the groups that were organized seeking cooperative housing just prior to the Commission giving the ultimatum saying that there would be no more loans.

MR. PARKER: There is a clause that the lessee agrees to keep the residence in a state of good repair, to care for and to beautify the grounds in such manner as he may from time to time be directed by the directors of the Company.

THE CHAIRMAN: It is paid for by the tenant.

.....

J. H. MacKICHAN,

General Manager,
United Maritime Fishermen,
having been duly sworn,
testified as follows:

MR. FRANCIS: We have a submission to be made on behalf of the Maritime Fishermen but first I wish to make a brief statement. The witness to be called now is the General Manager of United Maritime Fishermen and it is proposed to support this submission by calling two or three witnesses from widely scattered points to show what has happened in the marketing of fish, how that marketing is handled, the manner in which surpluses are distributed, and so on. That is the proposal.

BY MR. FRANCIS:

Q. Mr. MacKichan, you are General Manager of United Maritime Fishermen? A. I am.

Q. For how many years have you been working with or connected with the cooperative movement in the Maritime provinces? A. Twenty-one.

Q. You have had a good deal of experience? A. Yes.

Q. In round figures, what volume of business was transacted by your organization last year? A. \$1,441,000.

Q. One other question before you read your brief. Is your organization incorporated? A. No.

Q. This brief was prepared, I take it, by a committee? A. Yes.

Q. Has it been approved by your Board? A. It has.

Q. And are you authorized to present it to the Commission? A. Yes.

Q. I wish to make two corrections. On page one, in the seventh line, the word "profits" should be "prices"; and on page thirteen, in the ninth line of the second paragraph, the word "organized" should be "originated". Now will you read your brief. A. The brief is as follows:

"Origin of Fishery Cooperatives:

"Cooperative enterprise among the fishermen of the Maritimes arose and developed out of dire necessity. With the curtailment of markets and the deflation of prices after the close of the first world war, conditions in the Maritime fishery deteriorated to a point where suffering and deprivation was widespread in many of our fishing villages. Fish buyers and processors, finding their business no longer holding the high prices of wartime, began to curtail their marketing operations and in some cases to close up their plants entirely. Whole fishing communities were thus left without an established marketing agency of any kind, except perchance the local merchant who at times took fish in barter for groceries and supplies at his own price. The extent to which deflation took place in this period is indicated by the fact that the marketed value of fish and fish products produced in Nova Scotia and New Brunswick dropped from \$21,442,056 in 1918 to \$9,101,646 in 1933 (See Fisheries Statistics of Canada 1942, P. 43.)

"So serious did this situation become that in 1928 the Government of Canada appointed a Royal Commission to investigate the fishery of the Maritimes, and here is what the Commission found as set forth on page 102 of its report:

'During the course of our inquiry we heard from many reliable and restrained persons in almost every centre we visited, detailed descriptions of conditions in many districts along the coast of the Maritime provinces. We were given vivid word pictures of fishing villages in which ageing men alone were left to man the fishing boats, with little hope of adequate livelihood in the future years of their physical incapacity, and no hope of pension such as is possible to workers in other industries; of fishing communities from which the young men had emigrated in large numbers to another land, or were hoping to emigrate when they could gather means; of neglected boats with hulls ripe and rotten on the beach; of discarded gear once valuable and useful, but now falling to decay; of abandoned fishing vessels left hopefully equipped as they came in from the sea; to wait for a better season which never came; of wharves and breakwaters once staunch and busy but now dilapidated and deserted; of once prosperous localities slowly but surely becoming the graveyards of a dead industry; of fisherfolk despondent and disheartened, struggling on against economic disabilities, eager to labour in one of the most hazardous of pursuits, but unable to sell their products for a reasonable reward, always hoping for better luck, and clinging grimly and patiently to their calling -- a tribute at once to their character and their courage; and of school children psychologically distrustful of a future in their own country and planning

to migrate at maturity to another land to make a living. Apart from the statements made to us, we have taken every means and every opportunity to inform ourselves on the actual conditions, and we are convinced that these word pictures were not overdrawn. Our own independent observation has left on our minds an impression of the seriousness of the situation deeper perhaps than that left by the emphatic, and at times indignant protests of fishermen smacking under their obvious disabilities.'

"The Royal Commission on Price Spreads 1934, after having made an exhaustive survey of the fishing industry, corroborated the findings of the Royal Commission on Fisheries as pointed out in the following excerpt taken from pages 184 and 185 of its Report:

'Evidence submitted by competent witnesses indicates that the earnings of the average fisherman in the different localities of Eastern Canada for the year 1933 ran from \$75 to \$400 according to the district in which the fishermen worked, and that there would not be more than a 10 to 15 per cent improvement in earnings during 1934 these low earnings are in the vast majority of cases, not due to any lack of industrious application to his work on the part of the fisherman, who works longer hours and endures more hardships than do those in many other occupations. They are the result of unfavourable economic conditions which have reflected themselves in the industry and which for the fishermen are intensified by the fact that on the side of the corporation buyer there is strong bargaining power; on his side complete or almost complete absence of purchasing power. It is in a period of depression and its resultant collapse of business, that the full effect of such a situation as this becomes apparent. The middle man

has some protection against the storm. He can in part recoup himself for a drop in volume by maintaining his margin of profit. He often does this, however, at the expense of the first producer, the fisherman to whom he pays lower prices for his products. In the face of a shrinking volume of business and corporate concentration in buying, the fisherman is as helpless as one of his own dories in a typhoon; and yet he is adequately and conscientiously discharging his responsibility in the industry, that of catching fish.'

"These were the conditions out of which the cooperatives developed. The old system had failed. Heroic measures had to be taken to save the fishing communities, in many cases, from extinction. As a matter of fact the setting up of cooperatives was a primary recommendation of the Royal Commission on Fisheries. Following are the words used by the Commission in this respect as set forth on Page 81 of the Report:

'We recommend, therefore, that the establishment of cooperative organizations of fishermen be assisted by the Department as soon as possible, and that an organizer, experienced in cooperative methods, be appointed and paid by the Federal Government for the required period to initiate and complete this work. A preliminary study and survey of the entire Maritime provinces should be made to determine the localities where such organizations are possible or feasible. We do not conceive such an undertaking to be beyond the scope of Departmental responsibility or Government aid. The fisheries are a basic industry and are reasonably entitled to assistance and encouragement. A similar venture has already been aided for agriculture, in part at least. We are far from suggesting that the Government should enter

into the business of buying and selling fish products; we merely suggest, rather, that it should help fishermen through their organizations to buy and sell for themselves to better advantage. If we may judge from the success of similar undertakings in Canada, we feel that in a very short time these suggested cooperative organizations would be largely self-supporting and would require a minimum of Government assistance. We are aware that under existing provincial Acts such associations are now possible, but in their origin and their infancy they should be given every possible aid; it is clear that the fishermen themselves cannot, unaided, inexperienced and unguided, undertake to organize them. When such a project is undertaken, however, fishermen must realize that they must give a sympathetic response to the efforts to organize them; that they must help themselves; and that on their own efforts, success or failure will ultimately depend. From the history of organized labour in cities, and in other industries they should perhaps have learned long ago the value of cooperation. They must now lose the old idea that they are isolated producers running separate industries and competing with one another; they must replace it with the thought that each is a unit in one great corporation.'

'Following the publication of the Report of the Royal Commission on Fisheries and then Minister of Marine and Fisheries, the Hon. P. J. A. Cardin, announced the appointment by his Department of an organizer for the fishermen in the person of Rev. M. M. Coady. Following is the text of the Hon. Mr. Cardin's statement as reported in the Halifax Chronicle of September 16, 1929:

'On my recent visit to the fishing districts of Nova Scotia, I was much impressed by the desirability of

organization among the fishermen who for the most part are now unorganized. I was convinced that it would be helpful if the fishermen formed themselves into associations or unions for mutual consideration of their problems, for the formulation of policies and for initiating and carrying out programmes of action for the general advantage; and on several occasions I gave my assurance that my department would be prepared to assist in the organization movement.

'I am now very glad to announce that we have obtained the services of so strong a man as Dr. M. M. Coady to act for the department in assisting the fishermen of the Maritimes in this connection. He will be at their disposal to consult with them as to the best plan of organization and to carry through with them to completion whatever action may be found most desirable.'

"Five years later the Royal Commission of Economic Enquiry, 1934, investigating conditions in the province of Nova Scotia endorsed the work already done by the co-operatives, and urged its continuance in the following words taken from Page 93 of its Report:

'We were particularly impressed by the cooperative enterprises now in operation along the eastern shores of the mainland. Lobster canning factories have been established in several villages by the fishermen themselves, and the villages have cooperated to supply canned lobster to new markets. We believe that these enterprises contain great possibilities and that they are worthy of encouragement. Apart from its effects in adding interest to the lives of the fishermen by bringing them into close contact with the outside world, it represents a real advance in efficiency. On the side both of supply and of marketing, it represents an improvement upon the old state of affairs and has thus

opened up new avenues of trade to the lobster fishermen and enabled them to strengthen their position in relation to the specialized dealers in the larger towns.'

"Stimulated by the findings of these Commissions, and encouraged by the success of the earlier organizations, clergymen, educators and other leaders interested in the welfare of the people went forth with redoubled zeal to spread the gospel of cooperation. Clearly then the impelling motive behind this movement from its beginning was the liberation of a sorely depressed people from economic bondage that they may be able to earn for themselves and their families a decent livelihood, and discharge their responsibilities as good Canadian citizens.

"Cooperative Legislation:

"To facilitate the organization of fishermen's co-operatives, the Nova Scotia Legislature passed in 1916 an Act to provide for the incorporation of Fishermen's Cooperative Societies. Under the provisions of this Act (a copy of which is appended) a group of fifteen or more fishermen were enabled to form a cooperative association for the purpose of dealing in fish and fishery supplies. This Act, however, was quite limited in scope, and did not seem to meet the requirements of the situation. At any rate, for several years following its enactment very few organizations were set up under its provisions. In 1927 another Act was passed by the Nova Scotia Legislature providing for the organization of Fishermen's Federations. Under the provisions of this Act any group of fifteen or more fishermen were enabled to form a local station of the Fishermen's Federation for the purpose among other things of cooperating in the matter of purchases of fish,

fishing supplies and accessories and in the canning, curing, storage, preservation, selling marketing and export of fish. This Act did not provide for share capital. A similar Act was passed by the New Brunswick Legislature in the same year. A large number of fishermen's groups were organized in the two provinces under the provisions of these Acts, but due to lack of supervision and proper leadership many of them became defunct.

"In 1935, in response to a recommendation made by the Jones Commission of Economic Inquiry a general Co-operative Associations Act was passed under which all classes of co-operatives are incorporated. This Act also applies to all associations previously incorporated under the Fishermen's Co-operative Associations Act which it has supplanted. In the province of New Brunswick a general Co-operative Associations Act was passed in 1938 under which all classes of cooperatives may be set up.

"Notwithstanding the existence of cooperative legislation for many years in both Nova Scotia and New Brunswick it was not until the findings of the Royal Commission on Fisheries in 1928 revealed the seriousness of the situation that the organization of cooperatives among the fishermen was accelerated. At that time, as pointed out in the preceding section the Department of Fisheries appointed Rev. Dr. M. M. Coady to organize the fishermen of the Maritimes. Practically all of the organizations set up by Dr. Coady were incorporated under the Fishermen's Federation Act of Nova Scotia and the Fishermen's Union Act of New Brunswick. When a certain number of these local federations were formed, a central Federation was established known as the United Maritime Fishermen. The membership of this central body is comprised of local fishermen's unions and

federations, and local cooperatives in the provinces of Nova Scotia and New Brunswick and in the Magdalen Islands. The United Maritime Fishermen is not as yet an incorporated association and it is financed solely by means of repayable and loan capital.

"Not only by legislation has the Government manifested its interest in developing cooperatives as a means of bringing about an improvement in the fishery, but for several years past a substantial grant of money has been made annually by the Department of Fisheries to the University of British Columbia and to St. Francis Xavier University for the promotion of cooperative educational work among the fishermen on the Pacific and Atlantic coasts respectively. Speaking in this connection in the House of Commons, on April 29, the Hon. J. E. Michaud, then Minister of Fisheries said: 'May I say that ever since I have taken charge of the Department I have considered it my duty to look at and to study cooperatives as carried out under the scheme inaugurated a few years ago by the Extension Department of St. Francis Xavier University of Antigonish County. Personally I am thoroughly convinced that it is the best method that has so far been suggested to raise the social standard of these people, and the movement has received every encouragement that the Government was able to give it through the Department. It is intended to spread its activities all over the Maritime provinces during the present year.'

"That the cooperative movement among the fishermen of the Maritimes has won universal respect and admiration, is indicated by the following excerpt taken from the leading editorial in the December 1934 issue of 'Canadian Fishermen', the official organ of the Fishery Association of Canada.

'The manifest advantages of cooperative groups in the various branches of the fish trade are so obvious and so necessary to progress that we would go as far as to advocate their compulsory formation by an edict of Government if voluntary efforts failed.

'The fishermen, during the past five years, have gradually begun to realize the value of cooperation and encouraged by Government, both Federal and Provincial, have formed their federations and cooperatives in many districts. This movement will expand and develop with every possible encouragement from the powers-that-be, since the age we live in is fast coming to a choice between united existence or individual dissolution. The course for other divisions of the industry, the wholesale producers, the distributors and retailers, would point most emphatically in the same direction of group association.'

"And again from the November 1935 issue of the same publication:

'No industry can prosper with its primary producers in a state of serfdom and ignorance. No nation can attain greatness with its workers being exploited by a few. The remedy for such conditions, however, rests with themselves -- in education, in cooperative movements for mutual improvement, in self-help, in a study of markets and its competitive factors and an appreciation of the other fellows' point of view. The U. M. F. appear to be heading along those lines and we wish them well.'

"History and Development:

"The first cooperatives to be established in the fishing areas were lobster canneries. The chief reason for this is that for the inshore fishermen the lobster fishery is the most profitable as well as the most widespread branch of the

fishing industry. Prior to the enactment of cooperative legislation in Nova Scotia and New Brunswick a number of these canneries were set up and operated without share capital, but in recent years practically all of these associations are incorporated on a share capital basis. From the very outset the cooperative canneries returned higher prices to the fishermen than were paid by other buyers, and in the purchase of fishing gear such as rope, twine and other supplies they were instrumental in effecting a substantial saving, thus reducing the cost of production. In the distressed condition of these people at that time the extra cent or two cents per pound for the lobster catch, and the saving of a few cents per unit on supplies and equipment, meant the difference in a great many cases between having to go on relief and being able to make both ends meet. What has been accomplished in this way is well illustrated in the following excerpt taken from a report on the Havre Boucher Co-operative Cannery as presented to the annual meeting of that Association in 1936 by Rev. James Boyle, then parish priest at Havre Boucher, now Bishop of Charlottetown:

'The fishermen of Havre Boucher were poor and often discouraged at the end of the fishing season. They had to pay high prices for supplies, and accept what the packers wished to give them for their lobsters. As one of the fishermen expressed it "We are getting the skimmed milk while the packer takes the cream." In 1931 they formed a local union of the fishermen of Havre Boucher and joined up with the central organization. About that time the Extension Department of St. F. X. University was establishing study clubs among the farmers, fishermen and miners of Eastern Nova Scotia. Here was an opportunity for our local

group and a definite object on which to work. How to start a lobster factory to be owned and controlled by the fishermen themselves, how to buy their supplies co-operatively, and market their product so as to save for themselves the middleman's profits, how to finance the undertaking. These were some of the problems and discussions taken up in the study clubs, and the fishermen often wondered at their own dumbness in not having given thought to these things a quarter of a century sooner. The attitude that gets things done is more inspiring than that which waits for things to happen, or that discusses how things may be done. In the autumn of 1931 they decided to build a lobster factory in the face of sturdy opposition. The fishermen hadn't a dollar; they had no lumber. But they had the courage to face realities in all their grimness, without which no people can rise. They possessed the idealism and hope for better things which thrive when the days are dark. On Monday morning they took their axes and cut down the trees and had them sawn. At the end of the week the necessary lumber and timber were ready for the builders at the factory site. Scotch, Irish, French, Protestants and Catholics, joined hands in supplying the material and in putting up the buildings. Their services were free for they were working for themselves and their community. The men were almost beaten when they found themselves without money to buy glass, nails and shingles. The interest of the women had been aroused and by means of entertainment and card parties they raised four hundred dollars for the enterprise. Rudyard Kipling must have had the women of Havre Boucher in mind when he said "The female of the species is more deadly than the male."

'In 1932 the Union packed 680 cases of lobsters, marketed 60,000 pounds of lobsters in the shell and saved the fishermen five thousand dollars. In 1933, 1934 and 1935 the pack totalled 880, 1,080 and 1,140 cases respectively. The Union shipped about 60,000 pounds of lobsters in the shell during each of these years and made savings of \$6,350, \$5,450 and \$11,000 respectively, a total for the four years of \$27,800. During the four years the Union paid the sons and daughters of fishermen and other help in wages (two months each year) ten thousand dollars. The above describes the money-in-pocket achievement. That is important, but only secondary to the more important social and spiritual consequences. The people have acquired a social intelligence, and self-reliance that no money can buy. The organization has been a splendid school of adult education for its members. It is on the way to produce free men, socially-minded without whom there is little hope for the world.'

"The story of Havre Boucher is typical of the development in every other fishing community in the Maritimes where cooperatives are to be found, with the exception that in many places the fishermen had to borrow the money with which to secure equipment and supplies.

"As the lobster canning cooperatives began to prove their effectiveness in solving the problems of the lobster industry their operations were gradually extended to other branches of the fishery. Hence a number of fishermen's cooperatives originally established as lobster canning associations have developed into general fishery cooperatives handling cod and other ground fish, herring, mackerel, swordfish and other varieties, while other groups

have followed more or less specialized lines such as the assembling and marketing of live lobsters and smelts, the manufacture of boneless codfish, the processing of pickled mackerel, etc.

"With a rapid increase in the number and volume of business of the cooperatives and a continued expansion in the quantity of cooperative products destined for the export market the need became imperative of establishing a central cooperative marketing agency. This agency was found in the United Maritime Fishermen, a federation of fishermen's cooperatives in Nova Scotia, New Brunswick and the Magdalen Islands. This Association serves as a market clearing house through which the member cooperatives may place their products on the world's markets as and when required. This organization also serves as a wholesale agency for the distribution of fishing supplies and equipment among the local cooperatives. As indicated above the United Maritime Fishermen is owned, directed and controlled solely by the fishermen's cooperatives in the Maritime provinces and the Magdalenes. Through the medium of this organization, fishermen situated in the most remote sections of the country have been enabled to establish contact with the world's markets both in the selling of their products and in the purchasing of supplies. They shipped large quantities of canned lobster to England and other overseas markets; they imported rope and twine direct from the manufacturers. For several years they have been shipping lobsters in the shell in large volume direct to the United States and they have been exporting other varieties of fish to all the export markets. This close contact with the market and with market requirements through their own organization has resulted in

developing among the fishermen a keen appreciation of the value of quality, so that today the superior grade of U.M.F. products is recognized on all sides.

"The Operation of Cooperatives:

"It has already been pointed out that these cooperatives, in nearly all cases, came into existence under conditions of extreme hardship and adversity. The fishermen had no funds to invest in plant and equipment. But with their own labour freely given they took timber out of the forest and erected the necessary wharves and buildings and, as a rule, with borrowed money, or money raised in some other way, they purchased the equipment which could not be produced by themselves. That is how the initial capital has been provided for the typical fishermen's cooperative. In no case was it a matter of investing capital for the purpose of earning dividends, but rather the task of providing adequate facilities to handle the fish produced by the members. Subsequently, in some cases, share capital has been allotted to the members in partial return for labour and material supplied, but it is doubtful if there is a single instance in which this covers more than a small fraction of the time and energy expended in the construction of the plant facilities which these people have built for themselves.

"The combined paid-up capital of fishermen's co-operatives in Nova Scotia and New Brunswick at December 31, 1943, as shown in the annual Report on Co-operatives, Nova Scotia, 1943, Table III and the Report on Co-operatives New Brunswick 1943, Table III was \$73,257. The total membership was 1,528. This gives an average capital investment of only \$48 per member. The remainder of the total

net worth amounting to \$93,508.75 is shown as reserves and undivided earnings.

"When it is realized that in all cases, (by Statute in New Brunswick, and by provision in the by-laws in Nova Scotia) interest on share capital is limited to a maximum of 5 per cent, the non-profit nature of these co-operatives become clearly apparent. It is perfectly obvious that, unlike private enterprise, it is not the purpose of these associations to earn for the members profits in the form of interest on invested capital.

"The central organization, namely the United Maritime Fishermen, who has no share capital. It is financed entirely by means of repayable capital which is accumulated by deductions made from trading returns, and by loan capital supplied by the members. No interest is paid on this capital. Copy of U.M.F. Financial Statement attached, together with minute re disposition of earnings.

"Like all other genuine cooperatives the fishery associations pay out to their members on a patronage basis all of the proceeds of the products they sell less operating expenses and necessary reserves. Similarly, they distribute supplies to their members at cost plus operating expenses and necessary reserves.

"It being impracticable, of course, to determine at the time the fish is delivered to the Association the exact price at which it will be sold, and just what the expenses may be, the cooperatives pay the fishermen at the time of delivery, or at some time throughout the season, what is known as an advance or a partial payment. This may amount to 50, 60 or 80 per cent of the ultimate price, but never more than the prevailing market price. At the end of the year, or at the end of an accounting period,

the remainder is distributed on a patronage basis. Likewise, in the distribution of supplies it is not always possible to calculate the handling expenses with exactitude at the time the transaction takes place. For that reason, and in keeping with sound cooperative principles, supplies are charged at prevailing selling prices, and at the end of the year, or of an accounting period, after deducting handling expenses and reserves, the resulting over-charge, if any, is refunded on a patronage basis.

"It will be noted that in the first instance there has been an underpayment, and in the second instance an overcharge, but in each case the residue is payable in proportion to patronage to those who participated in its accumulation. Had this residue been paid at the time the transaction took place there would be no margin; in capitalistic parlance, there would be no profit. How, then, can it be argued that if payment of this residue is deferred for a brief period it becomes a profit? If it was not a profit when it originated, the fact of deferring its payment does not make it so. It has been contended that because the surplus savings of a cooperative are not calculated upon each individual transaction the distribution thereof at the end of a stated period may not be exactly in proportion to patronage and therefore may be in the nature of a profit. In the business world the experience of generations has resulted in the evolution of certain laws for the government of business and commerce. These laws are rooted in common sense and practicality. On the basis of these laws, for instance, interest and discount are calculated, not upon day to day balances, but at stated periods. By the same token the

savings effected by a member of a cooperative association are not calculated on every day's transaction, but at the end of stated accounting periods. In both cases the practice is dictated by ordinary business usage and common sense.

"The payment of savings returns at the end of a certain accounting period rather than at the actual time of transaction is not only a sound cooperative principle, but causes a minimum of disturbance in the existing economic structure. By following this method the established price system is maintained and any possible unfairness to private profit enterprise is averted.

"Upon these premises, then, it is respectfully submitted,

"Firstly: That in studying the question in broad aspect as to whether fishermen's cooperatives should be subject to income tax, consideration should be given to the conditions of extreme poverty and hardship from which they originated and to the fact that even today, when fishermen are receiving fully three times their normal earnings very few, if any, of them are in the income tax paying category.

"Secondly: That since the Government, through the advice of Royal Commissions and other bodies, has recognized in this movement the means of permanently rehabilitating the fishermen, and has actively encouraged and supported organizational work among the fishermen, to tax these associations at this juncture would be to a great extent nullifying the Government's own efforts.

"Thirdly: That where fishermen's cooperatives have succeeded in acquiring modest plant and processing

facilities much of the material and labour was provided by the members free of cost, and the remainder of the capital taken out of the earnings of succeeding years, the sole aim and purpose being to set up an institution dedicated to give service to the people, rather than to earn dividends or make profits for the shareholders.

"Fourthly: That fishermen's associations, like all other genuine co-operatives, operate on the principle of giving service in marketing and in the distribution of supplies at cost, and any surplus showing at the end of an accounting period over and above necessary reserves is the result of either an underpayment on products marketed or an overcharge on supplies distributed, or both -- all of which is payable to the members in proportion to their patronage and that in neither law nor in equity can this be classed as a profit."

Documents filed with brief:

1. Copy of Minute re Disposition of Surplus passed at Annual Convention of United Maritime Fishermen held at Amherst, N. S., October 25-26, 1944.
2. Annual Financial Statement - year ended September 30, 1944 -- of United Maritime Fishermen.
3. Copy "Form B" - Fishermen's Co-operative Societies - Chap. 193.

.....

MR. FRANCIS: Application is now made to have the financial statement kept within the personal knowledge of the Commission and not made public. That has been the practice with respect to other financial statements.

THE CHAIRMAN: Yes..

MR. FRANCIS: Thank you, Mr. Chairman.

BY MR. PARKER:

Q. Prior to your becoming associated with the co-operative movement, what business were you engaged in?

A. I was a farmer.

Q. Are you still a farmer? A. No. My son has been operating the farm since about 1932.

Q. Since then you have been employed with this organization? A. Yes. I was two years with the provincial government.

Q. Prior to that you were interested but still operating a farm? A. Yes.

Q. At the present time what are you? A. General Manager of United Maritime Fishermen.

Q. Is that full-time? A. Yes.

Q. When were you employed by the provincial Government? A. Part of 1932, 1933 and a short time in 1934. I was field supervisor and purchasing agent of the land settlement board of the provincial Government.

Q. I will try to summarize this. This Association, United Maritime Fishermen, is not an incorporated body?

A. No.

Q. It does not operate under any provincial statute?

A. No.

Q. It is a voluntary association? A. Yes, all groups. There are no individual members.

Q. Who is the deciding authority as to what group shall become a member of the union? A. Any group organized under one of the statutes of Nova Scotia, New Brunswick or the Magdalen Islands may become a member by application.

Q. That is, any group organized under the Co-operative Associations Act in any of the three Maritime provinces?

A. Yes, or under the old fishermen's acts.

Q. If they wish to become a member they make application? A. Yes, a written application.

Q. To whom? A. It goes to the head office of United Maritime Fishermen.

Q. How did the institution have its birth?

A. These local groups that were organized were called together in the city of Halifax.

Q. Who called them together? A. I presume it was Dr. Coady. They came together.

Q. And voluntarily formed this society? A. Yes. They appointed officers.

Q. President and Manager and the necessary officials? A. Yes, the necessary personnel.

Q. Did you pass by-laws? A. Yes.

Q. Were they approved by any Government authority? A. No.

Q. Just approved by yourselves? A. Approved by the members in annual meeting assembled.

Q. How do the groups vote? A. They send accredited delegates to the annual meeting and their credentials are scrutinized by the credentials committee.

Q. When the by-laws were set up they were approved at a meeting of all members, such members having been chosen by delegates? A. Yes.

Q. I presume they provided machinery whereby some other group could make application and become a member upon being duly approved by the existing members? A. Yes.

Q. Is there any fee payable? A. Not as the by-laws have been amended.

Q. But at the start? A. No.

Q. They came in without paying a fee? A. Yes.

Q. And if a new group came in tomorrow would they be charged a fee? A. No.

Q. Having become a member, are there any annual dues payable? A. No.

Q. Then in what manner -- it may appear in your brief -- does the union secure its funds -- because I understand it both purchases supplies for its members in open market and also sells their fish. A. Yes; that is right.

Q. How did it get started? Where did the original money come from? A. I have mentioned the by-laws as amended. Originally each local group collected a per capita tax of \$2 a year from its members, which was remitted to the central office by the local.

Q. Was that a straight gift to the union or was that \$2 advanced on terms that it would later be returned?

A. It was an outright contribution called a per capita tax.

Q. It became the union's once and for all?

A. Yes.

Q. Not returnable? A. No.

Q. How much would that amount to up to date?

A. It carried on until 1940 or 1941. I am not able to give the figure.

Q. I don't want you to be exact. A. It amounted in those early ten years to probably \$3,000 a year; somewhere in that vicinity.

Q. And that continues at the present time?

A. No.

Q. That was only one year? A. No, until 1941 and then it was decided to abolish that system of financing.

Q. Up to 1941 how much was it? A. Roughly, twenty or thirty thousand; \$2,500 or \$3,00 a year for roughly ten years.

Q. That is one source from which it could get funds. Any other source? A. The Government made a grant to the Association.

Q. On its formation? A. Yes.

Q. How much? A. As far as I know, the early grants were about \$4,000 or a little more until it was reduced to \$3,000 a year.

Q. And that continued until 1941? A. No; it is still going on.

Q. That is from the provincial Government? A. No, the Federal Government.

Q. So altogether it has received, since it was formed, from that source another \$35,000 or \$40,000? A. Yes.

Q. That is two. From what other source do they get funds? A. Some trading revenues.

Q. Any other? A. No.

Q. With that much capital at their disposal -- that is what it would amount to? A. Yes.

Q. You are in a position to buy twine, netting and the various fishing supplies that are needed? A. Yes; but in the early days the organization had cash with order when the financing was small.

Q. You started with a reasonable amount of capital which enabled you to purchase a reasonable quantity of supplies for your members? A. Yes.

Q. And you did so? A. Yes.

Q. And about the same time you began marketing the members' products? A. Yes.

Q. As you began marketing did you have funds, without borrowing, from which you could make initial payments on products? A. In the early days?

Q. Yes. A. I could not say whether they carried on without borrowing.

Q. Would not the accounts show that? A. Yes.

Q. Have you examined them? A. No.

Q. You do not know whether they borrowed in the early days? A. No; but it would be my opinion that they would.

Q. Seasonally, until they could market the stuff? A. Yes.

Q. And the system followed, so far as you have personal knowledge, was that in the marketing of the fish the union would make an advance of 50, 60 or 70 per cent as the case might be? A. Yes; but I should think that would not be the practice in the early days. The locals would have to wait until the returns were received. They would not get an advance in the early days.

Q. The only way they could do it would be by borrowing? A. Yes.

Q. They got under way and the system at the present time is to make an advance? A. Yes.

Q. In recent years have you had to borrow to make initial payments? A. We run into an overdraft occasionally.

Q. The system is, out of the proceeds of the sales of fish to make certain deductions for operating expenses? A. Yes.

Q. And the union has sufficient employees and staff to carry on that business? A. Yes.

Q. How many? A. We have six permanent employees and two steady labourers. They are fairly steady, and in the last

year we have employed casual labour.

Q. Having taken care of all these expenses, we come to the question of reserves. Do you set aside a certain amount for reserves? A. Only this past year has there been any reserve set up.

Q. What caused the change, to make it necessary to set up reserves? A. Before the accounting was done more closely to the market price. We had more surplus left this year and we thought we would set aside enough this year to cover that Government grant, which we are using largely for education. We thought our educational work might have to be carried on in this post-war period and we set aside a little more than the grant to take care of that.

Q. Up to last year and for a good many years back your method of operation had been to pay back to the members the entire proceeds from the sales of their products, less necessary handling expenses? A. Yes. It was calculated very closely.

Q. For all practical purposes you paid it all back?
A. Yes.

Q. You never operated on the revolving door plan?
A. Not until the change in 1941 when the per capita tax was abolished.

Q. You are initiating it now? A. Yes. It came in in the season of 1942.

Q. So that this money you are holding back for 1942 will be available to the members in five or six years?
I do not include in the question of reserves anything that is in that fund. When you said reserves, I did not include that; I was dealing with ordinary reserves and holdbacks which will be paid back through the revolving door plan?
A. Yes.

Q. Have you ever made income tax returns? A. Not that I know of.

Q. Have you been requested to? A. Not to my knowledge.

Q. You are generally familiar with the income tax regulations? A. Yes.

Q. And your management assumed that you are the type of organization not required to pay income tax and no one bothers you about it? Is that the situation?

A. That is the situation, yes.

Q. At the moment can you tell me how much you are holding back in the revolving door plan? A. As at the end of September, \$25,800 roughly. That would not be to date, but at the end of September.

Q. There would not be much change from then until now? A. It might have gone up another two or three thousand. It is growing all the time.

Q. Is it fair to say that at the present time the Company has as working capital thirty-five or forty thousand representing per capita tax? A. Less operating expenses from year to year. A good portion of that was used to pay for general operating expenses, salaries and all the rest.

Q. Have you not recouped the union since out of the holdback? A. No.

Q. That is gone? A. Yes.

Q. And the Government grant? A. Except certain years.

Q. And you only have now in the treasury of the union the revolving fund? A. That is practically correct. You will see its net worth there.

Q. So much for the disposal of fish. You also have been for years buying fishermen's supplies? A. Yes.

Q. You buy that and sell it to them at the ordinary market price? A. Yes.

Q. The same as they buy from someone else? A. Yes.

Q. With a view to making them some refund on the basis that the original selling price was an overcharge? A. Yes.

Q. Your operations should have shown that you do always have something to repay at the end of the year?

A. We did this past year. Other years it was very small.

Q. You break about even? A. Yes.

Q. In your view, from the experience you have had, do you think it would be possible or practicable, in accordance with sound business methods, to operate on the basis that there would not be anything to return either from the supply or the producer end? A. That is why we had a little more substantial surplus this year. It was not safe to figure so closely and we were not so concerned about it because we will have an opportunity at the annual meeting to pay back any overcharge.

Q. It would be dangerous in case things took a slump and you found yourself in debt? A. Yes.

Q. Suppose you did finance on that close margin and you found yourself in the red. Is there any arrangement between you and your members -- I mean of course between the union and its members -- whereby the members would be compelled to pay that loss to the union? A. There is nothing set forth, but I take it we would operate with a little wider margin the next year.

Q. To repay yourself? A. Yes.

Q. It is not so much what you do as whether there is an obligation on the part of the members to make up the loss. A. I cannot recall anything of the kind. It is their own business and they will have to do it if it becomes necessary.

Q. Is there any right they can enforce -- my learned friend will say this is a legal question but I will overlook it at the moment -- do you know of any right whereby the members can force the union to pay them this surplus notwithstanding that the directors may decide to hold it back for five years? A. The directors do not decide that.

Q. Who decides it? A. The annual meeting of delegates.

Q. They are the ones to decide whether it should be held? A. Yes.

Q. Suppose the majority at the annual meeting decided to hold it back under the five-year plan, and suppose some stubborn individual, some cantankerous fellow said, "I don't care what you do: I want mine." What then?

MR. FRANCIS: Not among fishermen.

BY MR. PARKER:

Q. Possibly there are such among fishermen. At any rate, what would be his position? Could he demand it or must it be left there? A. We have not had that problem. We have lots of problems but not that one.

Q. Is there anything in the by-laws or in the minutes dealing with that question? A. Not that I am aware of.

Q. In your brief you deal with this question. You emphasize quite properly the improvement that this system of

doing business has brought to the fishermen, which so far as I know no one disputes. You make the suggestion at the end of the brief, I believe, that it would be unfair in some way, or bad practice or what not, to impose taxes on such a union as yours, as it would probably kill the movement. Those are my words and not exactly yours, but that was the meaning -- that it would put the union out of business if they were taxed. Is that the purport of it?

A. Yes. To tax these associations at this juncture would to some extent nullify the effort. You will find that elaborated on page fourteen.

Q. Whether you state it in my words or not I put it to you. In your view, if a reasonable rate of taxation were imposed upon your union, would it be fatal to the union and to the movement? A. How broad is that word reasonable?

Q. You have to decide that. A. I would say that the tax I would consider reasonable would not cripple them.

Q. How big would that be? If it were zero I agree with you; it would certainly not hamper their operations. Is that what you mean. A. Perhaps.

Q. In other words -- A. They should not be taxed.

Q. The movement could not stand it? A. It would be a deterrent.

Q. Is not the imposition of taxation a deterrent to ordinary non-cooperative business? A. I don't think so.

Q. On page fourteen you say: "Secondly, that since the Government, through the advice of Royal Commissions and other bodies, has recognized in this movement the means of permanently rehabilitatin the fishermen, and has actively encouraged and supported organizational work among the

fishermen, to tax these associations at this juncture would be to a great extent nullifying the Government's own efforts." Is this movement prosperous and able to carry on only by reason of the fact that it does not have to pay taxes, so that if it did have to pay taxes it could not function? Is that the position you take?

A. No.

Q. When you say that it is a deterrent, I have no doubt it is true. But I put it to you: Is not taxation also a deterrent so far as any other kind of business is concerned -- the kind of business that has to pay taxes in these strenuous times? A. As I understand the taxing legislation, there is still sufficient margin left for them to expand.

Q. Are you putting this movement on this basis, that it is a part or section of our society that must have special favours in the matter of taxation, that co-operatives could not stand on their own feet and trust to their own merits to compete with other types of business?

A. I argue from the point of view that they are not taxable.

Q. I realize that is your argument. That is another point, however, and I am not asking you anything with respect to that. Assuming that it is taxable, by a proper application of the taxing law, are you making the suggestion to this Commission that, having regard to the history of the movement and the good works it accomplishes, it should receive a special favour in the form of exemption from a reasonable rate of income tax? A. I think that is right.

Q. On what ground do you justify the payment of taxes by one type of business and not by another?

A. The type of business the cooperative carries on, and the general contribution that cooperatives make to the welfare of the people, relieve the Government of expenditures.

Q. What expenditures? A. I have in mind true cooperatives that are training young men to take over agricultural work in the districts.

Q. Aren't the Governments doing that? A. Yes, but the territory is too large and these cooperatives are in their own right taking on a man for their district who, in place of the regular man doing the field work, will keep in contact with the local organizations and they will cover the larger territory.

Q. I do not want to argue with you, but even in the very movement you are heading, some of this good work is possible only by reason of Government money supplied to the extent that you have mentioned. A. Yes; that is right.

Q. And you get the benefit of it -- or your members do! I do not say this particular union does because you are only the spokesman for these bodies. A. Yes.

Q. They could not function at all unless they had first gone to the legislature and obtained a charter. A. I think we could.

Q. I am not saying the union could not, but the corporate members that make up the union.

A. I would not say they could not.

Q. But they do go and get a charter? A. Yes.

Q. And they carry on business through the medium of a society that has the benefits that are conferred upon them. A. Services that are free to all the people.

Q. And private business, so-called non-cooperative business, and private individuals have to bear the expense of these Government services and all other Government expenses? A. Oh no.

Q. Well, who does? A. We all do.

Q. Do the cooperative associations contribute?
A. To the sales tax.

Q. Do the cooperative associations, your member groups, contribute anything as such? A. Our members have been taxed.

Q. Income tax? A. Yes.

Q. I am talking about those who do not pay the tax. There are hundreds who tell us they do not. Your member groups do not in the main? A. Some of the consumer co-operatives have.

Q. As an association? A. Yes.

Q. Then to that extent my argument does not apply. Is it your view and the view of those whose spokesman you are today that these cooperative associations are of such a nature, and render such a service to the community, that they should be treated with special leniency in the matter of income tax? That is what this Commission is concerned with. Can you say whether they should or should not be treated any differently from others? Do you think that they are not taxable by reason of their financial set-up? Is it your argument that they do not earn an income, or do you take the position that, notwithstanding that they do earn income, it is of such a type that it should not be taxable and therefore you want the exemption of 4 (p)?

A. We contend that by virtue of its not being income it should not be taxed.

Q. I want to know the ground on which you put it, whether it is by reason of the very nature of the business that it does not have income, or whether you argue that, even if it had income, that income should have statutory exemption. A. I argue that it is not income.

Q. You don't get my distinction yet. Here is company A, an ordinary company which earns an income, a corporation earning taxable income, and they pay taxes. A. Yes.

Q. Beside them is a cooperative association that carries on business in the way we know it does, and it has surplus earnings or savings, and we have been told many times that that is not income. My question is this: Are you suggesting to the Commission now that it is not income at all and that, no matter how much you apply the Income Tax Act to other people, you could not be caught in the end because of the nature of the business you do? Or are you saying this, "No, Mr. Parker; I admit that these associations have income but I say that Parliament has seen fit, notwithstanding that we have income, to exempt our income from taxation." You do not rely on that second argument, do you? A. No.

Q. In other words, you do not ask Parliament to give you statutory exemption; you stand on the merits of your case apart from the statute? A. Yes. We are not taxable within the meaning of the statute.

Q. Will you turn to the statement in the brief, the annual financial statement for the year ended September 30, 1944. A. Yes.

Q. On the assets side you have furniture and fixtures, merchandise and "Lob. cts. canso." What is that? A. That is lobster crates.

Q. You have an amount of \$48,000 for members' accounts.

What is that \$48,000? A. That is largely cash advances made against fish that is in process of being marketed. There is some merchandise, but largely it is cash advances made. It is one of the initial payments.

Q. You have merchandise on hand. A. It may be on hand or it may be in transit.

Q. But you consider it an asset to the extent that you either have accounts receivable representing it or you have goods in your possession? A. Yes.

Q. You have trade accounts, \$83,000. What is that? A. That is very largely canned lobster. That was sold on the American market, and some Canadian, that had not been paid for -- invoiced out but not paid for.

Q. On the liability side you have trade accounts. What are those? A. Little amounts.

Q. You do not operate strictly on a cash basis? A. No, no.

Q. That is scarcely according to Rochdale? A. It is not so easy in the wholesale to do that.

Q. You have brokers' commission. What is that? I thought these middlemen were anathema to cooperatives. You do not use brokers, do you? A. At the moment we are compelled to.

Q. Why? A. We have not been able to set up our own facilities in New York and Boston and these brokers, particularly the ones in Boston and New York, sell canned lobster for us.

Q. Members' accounts; what is that? A. Liabilities that we figure at the end of the year, which we owe them for fish payments that we have to make.

Q. It is a gross entry? A. Yes.

Q. What is the \$37,000? A. That is mostly fish sold to the British Food Ministry for relief in Greece and other places. They still owe us money for that. It was not members' accounts receivable and in that particular product the Government was rather slow in paying for it.

Q. You spoke in your brief about considerable amounts of money spent for educational purposes in connection with field men. A. Yes.

Q. Is that carried in your accounts as ordinary operating expense? A. Yes.

Q. Where is it shown in that sheet? A. There is an item for salaries and wages there.

Q. How much do you spend roughly on educational work? A. In connection with the Nova Scotia Co-operative Union, which you heard of yesterday, there is \$300 there.

Q. That is educational? A. Yes.

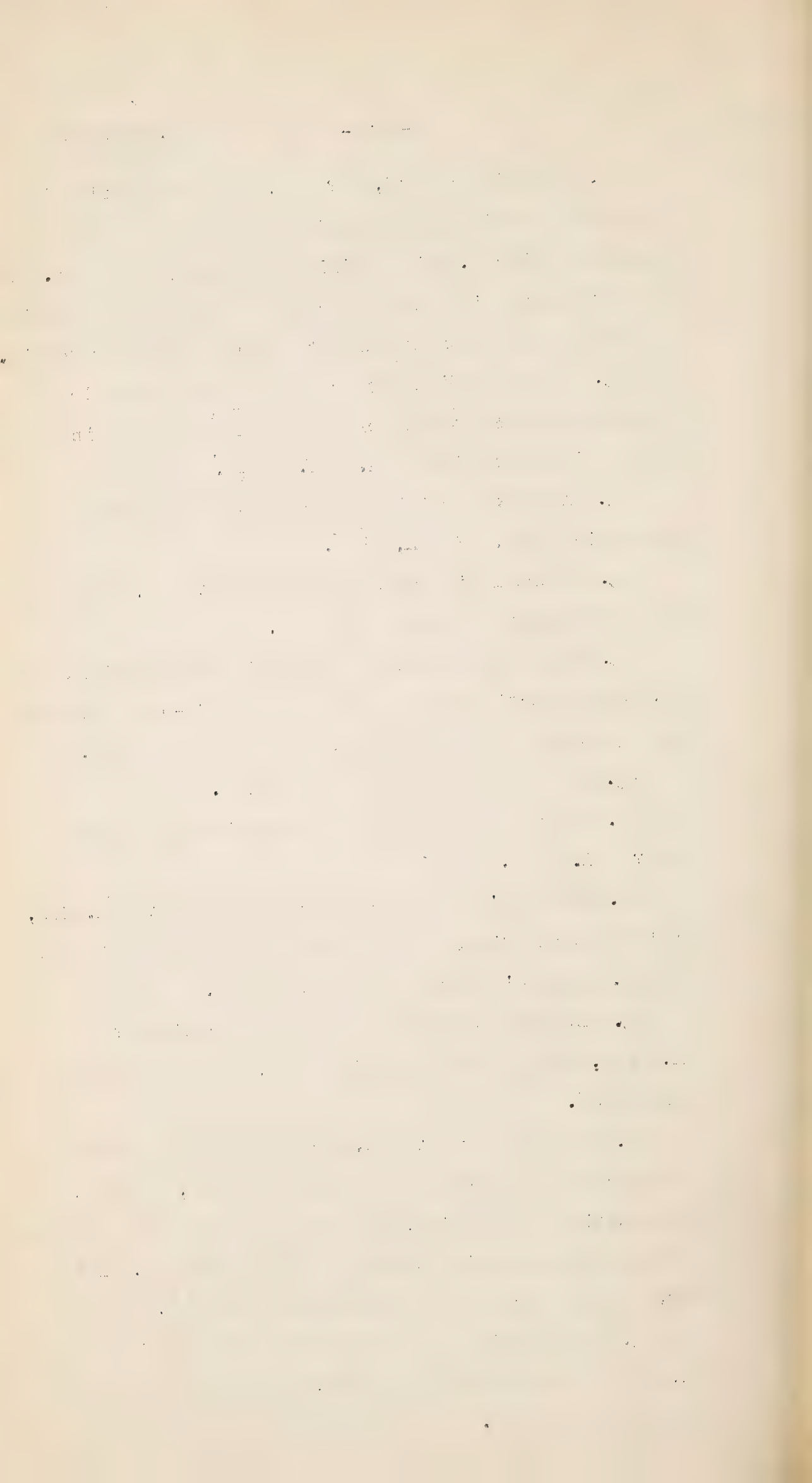
Q. That is a grant which this union makes to that one? A. Yes.

Q. You don't do direct educational work? A. Yes, but the other figure would be put in these salaries and wages. We don't keep separate accounts.

Q. Are some of these employees educational? A. Yes, the president particularly, who works in New Brunswick.

Q. Who do they do? A. They teach cooperative practices in regard to the quality of fish, packing, instructions on grading, and they spend some time preparing documents and getting stuff out of the country. A lot of our groups cannot prepare these documents.

Q. They can't make out Government returns? A. Not only Government returns, but these forms that are quite complicated.



BY MR. ARNASON:

Q. In connection with the grants which you receive from the Dominion Government and which you use for educational and extension purposes, is it your policy to spend that money entirely during the year for which it was received? A. No. It may lap over somewhat, and sometimes it does not come in when we expect it. We have accounts receivable here, and one of them is the Government grant.

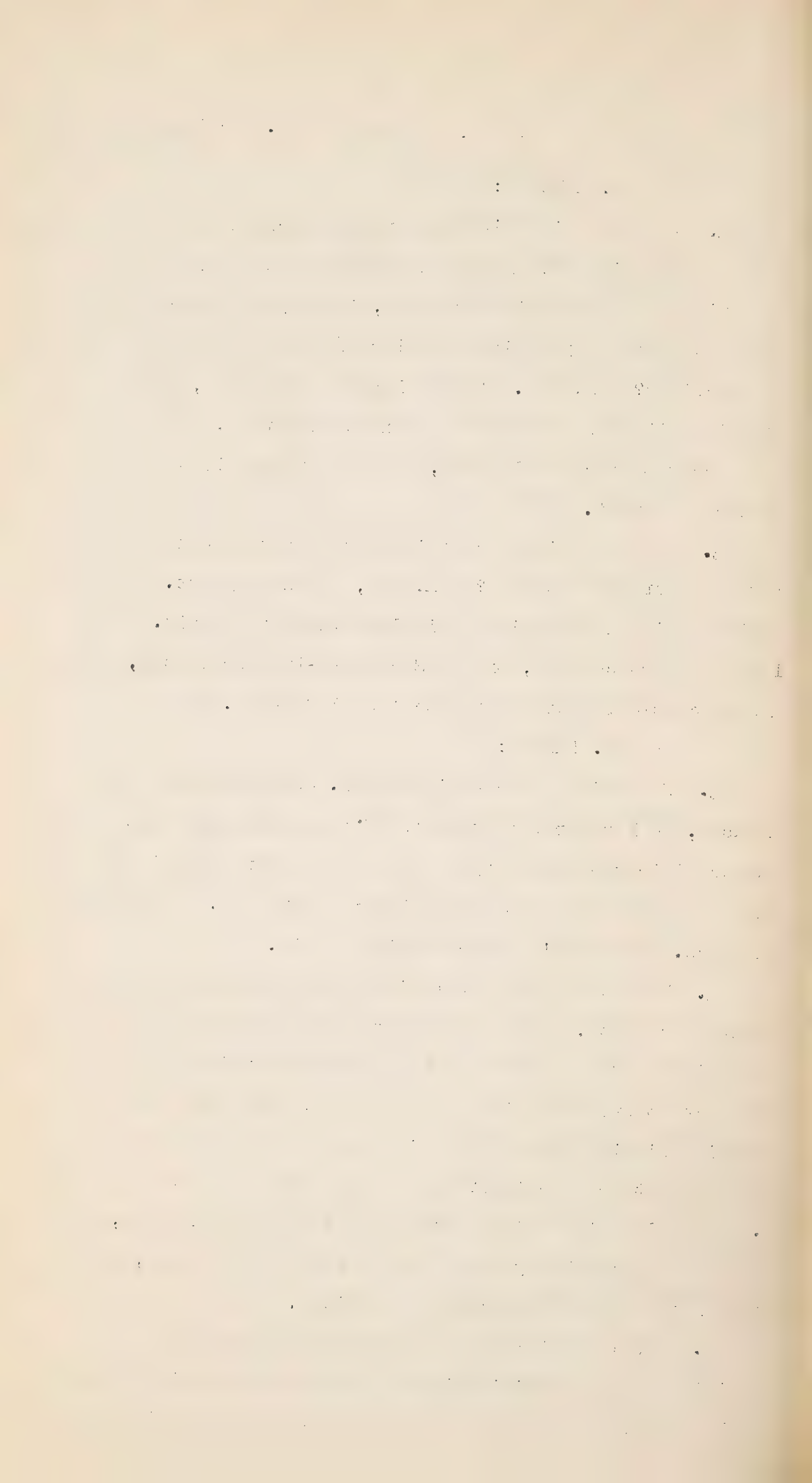
Q. You set aside a certain amount of your own revenues for that purpose? A. No, definitely not. Another thing I was going to include in that is this. I go to short courses, or the Secretary-Treasurer does, and we consider that is an educational feature.

BY MR. PARKER:

Q. Following the question by Mr. Commissioner Arnason, do I understand that the Government grants are earmarked in your hands by the Government for educational purposes or are they for general purposes? A. General purposes. They don't attach strings to it.

Q. You have your members in Canso and Antigonish county and so on. Of what benefit to those people is the expenditure of money over in New Brunswick or in some districts where there is no cooperative? How does that benefit existing members by going into communities where they are not so organized? How does that work out? A. We feel that the larger the territory you can cover, the more people that you can interest in the movement, the greater the number who will be benefited.

Q. How is that reflected back in the improved condition of each individual in the community who is already in the union? How do you work that out? Education is good



for me, but I am not particularly interested in yours. Suppose I were one of those people who did not agree with that; suppose I said, "I am not going to spend money to educate you." What then? A. Cooperators look on it differently.

Q. Is that the basis? I was trying to help you.

A. I don't want to be embarrassed.

Q. I think the gentleman must be from Cape Breton. Anyhow that is what you mean by it? The whole level of the community or province or nation is raised in consequence of the improvement that takes place in a particular section. Is that your view? A. The whole country would be benefited by adopting the cooperative philosophy.

Q. You have quoted from previous Royal Commissions.

A. Yes.

Q. You prepared this brief or supervised the preparation of it? A. Yes.

Q. You are willing to father the brief? A. Yes.

Q. What had you in mind in quoting all these things?

A. We had in mind that cooperative enterprises develop out of dire necessity, and while it would take a great deal of time of the Commission and it would be expensive to bring in a sufficient number of witnesses to substantiate that statement, I think I can safely say that it can be substantiated. We have the sworn findings of those Commissions.

Q. Without questioning anything which those other Commissions reported -- I think everyone is prepared to accept their findings as to the conditions upon which they reported -- even so, even though all that be so, what I do not quite follow is what it has to do with the problem entrusted to this Commission. There are many things from

those reports which you could quote, but they would be quite irrelevant. A. We thought these were relevant.

Q. In what way? A. Well, the Commission would like to get the whole background of conditions in Nova Scotia, and we followed one Commission after another, quoting their findings. We feel that if they had the tax problem to deal with it would probably be just as favourable.

Q. I was wondering whether it was all put in for the purpose of -- what shall I say -- securing a little sympathy, or --

MR. FRANCIS: Oh, oh!

BY MR. PARKER:

Q. Just a moment. The witness is quite able to take care of himself. He has not had any assistance up to this stage and he does not need any assistance to state whether that was the purpose of putting it in. At any rate, how do you relate it to the tax question?

A. We were not looking for sympathy. We were simply trying to prove the justice of our case.

Q. The justice of being exempt from taxation because of the hard times through which the fishermen have passed?

A. We mention that as something that should have its effects, but in justice we point out that we have not an income that is taxable.

Q. You agree that nowhere in any of these reports is there the slightest suggestion that any of these Commissions thought that the cooperative associations should receive special treatment on the question of income tax?

A. I agree with you if it did not come within the purview of their inquiry.

Q. There is no mention of it, and it was not for that

purpose that they were set up? A. No.

BY MR. ELLIOTT:

Q. You are submitting these in support of the second point of your submission on page fourteen. You quote these largely in support of your second submission?

A. Yes. That is right, Mr. Elliott.

BY MR. PARKER:

Q. On page one of the brief you have given some figures about conditions back in those days -- the price of fish and so forth -- and you say that the value of fish and fish products produced in Nova Scotia and New Brunswick dropped from \$21,000,000 in 1918 to \$9,000,000 in 1933.

Where did you get those figures? A. From the fisheries' statistics.

Q. That was right in the depths of the depression?

A. Yes.

Q. Did not all other business throughout the country decline in the same proportions? A. No. I believe the fisheries suffered particularly severely in the depression.

Q. Have you studied the statistics and compared them with the statistics for other types of business?

A. I have in mind the territory over which I worked at that time as a cooperative field man, and while the conditions of the farmers were not good, they were particularly depressing in the fishermen's areas.

Q. One more question, and perhaps I am giving expression to a foolish notion of my own. I know personally something of the fishing communities of the province, being myself a Nova Scotian, and I have been around, as you have been. I know that these people live under trying circumstances, but I have this in mind also: that the whole world has changed so far as the consumption, the marketing

and so on of fish is concerned. There has been a change in the European and the West Indian markets where there used to be quite a demand for fish. There has been a fundamental change in the last ten, fifteen, twenty or thirty years, and although the fishing communities could prosper in days gone by, there has been such a change that it might be wiser to make some arrangement whereby some of these communities might be assisted in taking up a vocation somewhere else instead of trying to maintain what I would call an artificial industry in places where it is no longer feasible to sustain such communities. What would you think of that suggestion? A. I agree with you to some extent, and we have some agricultural land that is sub-marginal, which could grow forests as the Lord intended.

Q. Industries are prosperous by reason of location, accessibility to markets, world demand, and other factors, and I suggest that down through the ages it will be found that communities that have been prosperous at one time no longer flourish today, because there is a continuous change taking place. That might apply to some extent to the fishing communities here, might it not? A. Yes, that is so.

BY MR. ELLIOTT:

Q. Does the United Maritime Fishermen buy merchandise from member associations? A. Absolutely not; positively no.

Q. It markets merchandise for them? A. Yes.

Q. How long have they been doing that? A. It was organized in 1930. That has been the practice ever since I have been associated with it.

Q. In the statement of the objects I do not see that set out as one of the purposes. Am I missing something there? A. What page? No; it is not there.

Q. I was curious about it. You are not incorporated? A. That is right.

Q. Have you in your operations experienced any inconvenience from not being incorporated? A. Not in my experience, we have not.

Q. It is suggested in your brief in one place that you are not yet incorporated. Does that mean that you intend to apply? A. We are taking advice on that.

Q. Why are you doing that if you have suffered no inconvenience? A. Probably we are trying to be in style. Everyone else is incorporated and we wonder if there are any benefits that we can derive from incorporation.

Q. You have not definitely decided yet? A. We have to search the statutes. One of the things that bother us is that there is no federal cooperative act.

THE CHAIRMAN: There are other advantages than mere style, I should think.

THE WITNESS: I believe there are. We will keep the Judge's opinion in mind.

BY MR. ELLIOTT:

Q. You had some discussions on this point? A. Yes.

Q. In those discussions, has any other advantage than style been mentioned? A. No. We were just mulling over things and wondering if there were some advantages in being incorporated. I am only speaking personally.

BY MR. ARNASON:

Q. I understood you to say that it was up to the members of your association to decide at the annual meeting whether or not the dividends were to be held back, and for

how long. A. That is right.

Q. Does the length of the period during which the dividends are to be held back vary from year to year depending on the decision of the members at various meetings, or is it fairly well understood that they will be returned after five years? A. That is the understanding, and while that would have the practical force and effect of a by-law, subject to change on thirty days' notice, I would not expect they would change it.

Q. Would it be feasible, in your opinion, to have a definite period for repayment set forth in the by-laws instead of leaving it entirely to the annual meeting from year to year? A. In practice I think it would, because it would tend to greater stability. I have every confidence that the delegates would leave it a sufficient time; nevertheless, you might possibly be up against withdrawal. I should think it would be more feasible to have it definitely stated.

Q. Do you use a marketing contract? Do they sign a marketing contract? A. No.

Q. I have not looked at the by-laws closely, but are the amounts which can be deducted for operating expenses designated in the by-laws? A. No. That is left to the discretion of the management.

Q. Can you indicate approximately what percentage of the total fish marketed in this province is handled by your association? A. No; I could not give you that.

BY MR. NADEAU:

Q. Have you many competitors in Nova Scotia?
A. Yes.

Q. Are they doing a considerable amount of business?
A. Yes. We feel they are. They are doing quite nicely,

thank you.

BY MR. ARNASON:

Q. May I put my last question this way. Your competitors handle a larger volume of the total fish marketed than you do? A. You mean our combined competitors?

Q. Yes? A. Oh yes, surely.

BY MR. VAUGHAN:

Q. Why do you not try to get the people of central Canada to consume more fish? Do you make efforts along that line? A. We have not, because we are doing little in the fresh fish business which appeals to that country. There would not be a great deal of consumption of salt fish. We have canned lobster in that area.

Q. But there might be educational work. A. Yes.

Q. I have been wondering why the people don't eat more. A. There is nothing better.

BY MR. ARNASON:

Q. Do you do business with or for non-members -- that is, marketing? A. No, none.

THE REVEREND J. FOREST,

Larry's River, Nova Scotia,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. Father Forest, I understand that you reside at Larry's River, Nova Scotia? A. Yes.

Q. And you have been in that community since 1918? A. That is right.

Q. Why are you here today to give evidence?

A. I was asked by the U.M.F. Central Board to come and be of some help if needed.

Q. You have been parish priest in Larry's River district since 1918? A. Yes.

Q. And you are still there? A. Yes.

Q. I understand that you are interested in the cooperative movement among the fishermen? A. Yes.

Q. When did you first become interested?

A. In 1928.

Q. What aroused your interest in the movement?

A. The poverty of the fishermen, especially in my own district.

Q. What suggested the cooperative method to you?

A. The extension work of St. Francis Xavier University.

Q. Have you ever read the report of the Jones Commission? A. Yes.

Q. Did you get suggestions from that?

A. Yes. I thought I was in the right direction in becoming interested in the common people, especially among the fishermen.

Q. How did the cooperative movement in Larry's River start? What was the first step the people took along cooperative lines? A. First we followed the advice given us by the Extension Department and we had our fishermen organized in study clubs. We told them not to be satisfied with only a year's education in the clubs but to keep at it as long as possible. They continued their studies from 1928 to 1932 and in that year they decided that they should put into practice the knowledge acquired in the study clubs. So at that time they went to the woods and cut logs and established a small lobster factory.

Q. Was that a cooperative lobster factory?

A. Yes.

Q. What was the situation before the establishment of that factory? What was the old price of lobster?

A. Well, at first the fishermen, without any knowledge of their basic industry, thought that they were getting fairly good prices; but during the depression the prices of lobster and other commodities went so low that they were discouraged. In some cases their net returns after the fishing season were barely enough to pay cost and they decided that perhaps, by conducting their own business and owning it themselves, there would be a small margin that would go a long way towards giving them a better standard of living.

Q. I understand that in the lobster industry there are two main classes, small lobsters and large ones?

A. Yes.

Q. The large ones are sold alive to the consumer, or through the consumer market, and the small ones are canned? A. That is right.

Q. Prior to the organization of their own lobster factory was it possible for the fishermen to sell large lobsters, to find a market for them? A. It was possible for the fishermen to sell and market lobsters to private dealers but they had no facilities to export and market lobsters in the American market.

Q. I take it the price of live lobsters is very much higher than the price of the small ones? A. It is, but the margin at that time was not so large.

Q. When the marketing was done direct by the fishermen what was the margin? A. They found that the margin increased from 6 to 7 cents a pound.

Q. Is the lobster factory -- I think it is called a federation -- a local unit of the United Maritime Fishermen? A. It is.

Q. It is today? A. Yes.

Q. How many fishermen were in the cooperative?

A. We started with 30 fishermen.

Q. And you got your charter in 1934? A. Yes.

Q. In setting up the lobster factory and in bringing in the lumber, did the member receive credit for the contribution he made by way of lumber and material?

A. We took an account at the time of every hour of labour given, the number of feet of logs, the number of pounds of iron, and we credited the members with the value of their contribution of lumber and so forth on share capital.

Q. I understand the lobster season is from April to June? A. In our district now it is from April 20 to June 20. For two or three years at that time, it was from April 1 to June 1.

Q. When you first set up the cooperative did you devote any funds or savings to educational matters?

A. Yes, we did.

Q. I understand you were in operation in 1932 for the first time? A. Yes.

Q. As a result of the operations what happened in regard to the return the fishermen got? A. Previous to the last war our net surplus over and above what the fishermen would have got through the ordinary channel of business was not really considerable compared to the results they are getting now during this war.

Q. At the time that this lobster factory was established, was there any difference in the price at

Yarmouth and the price at Guysborough county? Was there a margin, or a wide margin? A. In Yarmouth county west of Halifax they do not can lobster; they only market live lobsters.

MR. PARKER: They have a different season.

THE WITNESS: Yes.

BY MR. FRANCIS:

Q. So that the comparison would not be helpful?

A. No.

Q. Of what racial origin are the people in your district? A. They are all Catholics.

Q. French? A. Yes, with the exception of 2 per cent of the total population, who are English.

Q. Have there been other cooperative developments in that district? A. Yes. We have a blueberry industry.

Q. Is that cooperatively organized? A. Oh yes.

Q. Have you a credit union? A. We have a credit union and a consumers' store, but the consumers' store is not connected with the producers' cooperative.

Q. You are in the unique position of having been in the district since 1918; you are still there today. Leaving out of account as far as you can the improvement brought about by the last Great War, would you please give the Commission the benefit of your observations as to conditions prior to the cooperative activity, after that activity began, and your opinion as to the benefits if any at the present time. A. First, in the economic field, the fishermen have received better revenues; secondly, they have studied their problems and have more confidence in themselves and understand better their primary industry, which is fishing; and thirdly, there is a better feeling among the different

members in the various districts in consequence of studying together, and conducting their business together. They know themselves better in a social way and it has been a great improvement.

Q. What would you say about the debt before and after the cooperative started to operate, and the relief situation?

A. Previous to 1932 the majority of our fishermen were in debt with the private merchants. They were depressed, unable to pay their debts. The local merchants were as well the fish dealers, and it was not at that time the practice to pay the fishermen in cash; it was only barter trade. Consequently the majority of the fishermen could not fulfil their social obligations in payment of taxes and in support of schools and church. Their only alternative was to try to find ten or fifteen days of labour on the highway in order to get cash to pay their taxes.

Q. Am I correct in saying that you are field representative in the area for St. Francis Xavier?

A. I am part of the time. In my free time, if I am asked by the Extension Department to do any field work, I go into the field.

Q. You have had close contact with a number of communities? A. Yes, in district three.

Q. Does that contain French and English, Catholic and Protestant? A. Only 25 per cent of our members now are Catholics.

Q. There is a statement on page twelve of the submission by the Co-operative Union of Canada to the effect that one of the main principles of cooperative organization is open, unlimited membership. It tells how the people of different races and religions work together towards a common aim,

to solve their social and economic problems? What is your opinion of that? A. As far as Guysborough County is concerned, that is a fact,

The Commission adjourned until 2.15 p. m.

.....

The Commission resumed at 2.15 p. m.

MR. FRANCIS: Through the courtesy of the St. Francis Xavier University we have been supplied with a map which may be of help to the Commission. It is relevant to the evidence which will be given by the witnesses I am about to call. I may pause to indicate the significance of the map. On the legend the red pins show the credit unions in the Maritime provinces; the white pins with the black tops the cooperative stores; the plain yellow pins the producer cooperatives; the black pins the fishing cooperatives, with which we are particularly concerned at the moment. The brief this morning may have given the impression that the whole province is covered with cooperatives, but this will give the true picture. The place we talked about this morning was along the Guysborough coast. There are several cooperatives along the Northumberland straits. The blue pins with the black dots are the small cooperatives and the white pins are the wholesales. The housing groups dealt with this morning include five in Sydney and two in Pictou. Further reference will be made to these later on, but this is to indicate in a general way where the fishing cooperatives are.

REED SANGSTER,

New Harbour,
Nova Scotia,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. Where were you brought up? A. New Harbour.

Q. Until 1943 what was your vocation in life?

A. Fisherman.

Q. How old were you when you started to earn your living as a fisherman? A. About fourteen.

Q. Prior to that, had you been fishing in summer?

A. Yes, from the time I was twelve.

Q. From the time you were fourteen until 1943 you were a fisherman by trade? A. Yes.

Q. Does the district you come from comprise people of British stock? A. Yes, British and Scotch.

Q. I suppose the Scotch will be willing to be considered British for our present purposes. A. Yes.

Q. And Protestants? A. Yes.

Q. Very briefly will you tell the Commission what you know, of your personal knowledge, concerning cooperative developments in that district? A. I was very young and the people were living under conditions -- well, I was brought up under those conditions and I know what they were. Well, when St. Francis Xavier started this movement our people became interested and we collaborated in the various communities to build up what we have today known as the cooperative union, the district union. I as a fisherman played my part as best I could to help build up the union, working along with Father Forest.

Q. When did you start the first cooperative venture?

A. In our district, in 1934.

Q. What was the nature of it? A. A cooperative salt fish producers plant.

Q. Will you tell the Commission about that.

A. We felt we had received twice as little as we should for our fish and that we could do a better job of marketing ourselves. The Extension Department made us feel that we were part of this democracy and could do the job of marketing for ourselves if we went at it in that way.

Q. How many people were engaged in building the first plant? A. Probably fifteen.

Q. In what did your first assets consist?

A. That property.

Q. What did they pay for it? A. Seventy-five dollars.

Q. What was the first year of operation? A. 1934.

Q. What fish did they handle that year? A. Codfish, 45,000 pounds.

Q. What were the results of that marketing venture?

A. We proved to our own satisfaction that we had possibilities in marketing fish for ourselves in the future and that we had not lost anything by acquiring this property, and in the first year we made it possible to pay for the property and have a small amount to pay the fishermen in dividends.

Q. Has there been any other cooperative development in that community? A. Yes, a credit union and a cooperative buying club.

Q. Anything else? A. Well, you would have to call this cooperative, because it led to the formation of a parent-teachers association, concerned with rural school and community affairs. It is a more or less cooperative concern.

BY MR. ARNASON:

Q. Was that buying club incorporated? A. No.

BY MR. FRANCIS:

Q. What is your present occupation? A. Doing field work for St. Francis Xavier Extension Department.

Q. Were you taken from your occupation as a fisherman to do that work? A. I was.

Q. And you are now doing educational work? A. Yes.

Q. How far did you go in school? A. Grade eleven.

Q. As a boy growing up in this community and seeing the development there, what is your opinion of the benefit, if any, that has been brought to the community by this co-operative development? A. When the movement first started the benefits were economic. The benefits are to make more money for ourselves. We did not think we could build our people up socially unless we gave them more money for their products and made them feel that they were part of the democracy, and the benefits are turning now more to social aspects. The development has brought about complete understanding between the members of all kinds of churches and political parties because we all work together, and I think that is the most important thing in the development of the cooperative in that section of the country.

Q. How far do you live from Larry's River?

A. Nine miles.

Q. The community described by Father Forest is north?

A. Yes.

Q. Do the people of the two districts work in harmony?

A. Completely.

BY MR. PARKER:

Q. In your studies have you, among other things, read

the order in council appointing this Commission?

A. Yes.

Q. You understand it reasonably well? A. Well, I am a fisherman.

Q. It has to do primarily with taxation. Have you given any thought to the question of whether or not, or on what basis, these cooperative societies ought or ought not to be taxed? A. Yes.

Q. What are your views on that? A. My personal opinion? We believe that if the cooperatives were actually making profit they should certainly be taxed.

Q. What do you understand by profits? How do you decide whether they do make profits or do not? A. We pay our people a price on account for their products and any money left over, unless we paid it in dividends, would be profits if kept for ourselves. We pay it all back except for necessary reserves but if we kept it for special reserves it should be taxed because it would probably be profits.

Q. Does it help you, in deciding whether it is profit or not, to consider what the association does with the money? A. Yes.

Q. You use it for one purpose, but it might be a profit if you used it for another? A. Yes.

Q. Depending on the purpose for which it is used? A. Yes.

Q. Does it depend in any degree on the motives or the reasons for accumulating it? A. I don't quite understand.

Q. Would the question of whether or not these left-overs are real profits depend upon the motive of the people concerned in getting together and acquiring these left-overs?

Would that affect the nature of the thing? Do you understand me? A. No, I don't.

Q. You say that the question whether these left-overs are really profits depends quite largely upon the use that is made of them -- to whom they are paid?

A. Yes.

Q. And at the other end, does that same question depend to some extent on the motives which have caused people to acquire these left-overs in the first instance? Could that affect the nature of the thing? A. All profits in our cooperative are returned back as patronage dividends.

MARCEL DENTREMONT,

Yarmouth County,
Nova Scotia,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. Where do you live? A. Yarmouth County.

Q. What is your occupation? A. Fisherman.

Q. Have you a fishermen's federation?

A. We have a fishermen's federation, U. M. F.

Q. You are one of the units? A. Yes.

Q. Have you been a fisherman all your life?

A. Ever since I was fifteen years old except seven years when I worked in the machine shop part time and in the army.

Q. That would be in the other war? A. Yes.

Q. Apart from that you have been a fisherman, and are you still engaged in fishing? A. Yes.

Q. In that part of the country what is the main product? A. The main fish product is live lobsters for the American market.

Q. In that area what is the lobster season?

A. From the 1st of December until the last of May or the 1st of June, both days included.

Q. In between June and the commencement of the next season, do your lobster fishermen engage in other types of fishing? A. Some do and some don't. Some go codfishing and mackerel and haddock fishing, and some sword fishing around Cape Breton.

Q. Until four years ago how were the lobsters handled in the west Pubnico district? A. By the local dealers, and put on the American market that way mostly. There were some individual shippers who sent their own lobsters to the market, but the biggest part of the lobsters was bought.

Q. Were the fishermen organized to find a market for their lobsters prior to that time? A. No.

Q. I would like to lead the witness for a moment on a technical matter. Am I correct in saying that the first grade is select? A. Yes.

Q. That means over a pound and a quarter and in good quality? A. Yes.

Q. The next is quarters? A. Yes, a pound and a quarter.

Q. And the next is chicks? A. Yes.

Q. And after that crows, and jumbos, and the poorest grade would be weaks? A. Yes.

Q. Before your organization was set up, did you have any contact with markets whereby you could get the full value for your better grades? A. Those were the grades prior to our organization. We had four or five grades and after we organized the area in the east they

got these grades changed to two, one being select for lobsters with two claws regardless of length, and those with one claw, which we called culls. There were two prices.

Q. How did you benefit from cooperative marketing?

A. We benefited that way.

Q. Explain that. A. With those four culls, we were not sure when the lobster was marketed but that there was a chance for the dealers on the American side to do something funny. We don't think they are all crooked but they might have juggled them a little, because there was a chance to do some juggling.

MR. PARKER: They are not all angels either.

THE WITNESS: No. We found our percentage of select lobsters was not up to what we thought it should be. We were getting returns for 25 or even 20 per cent of selects and now, since we have gone in and tried to fight them all we could, we are getting up to 78 and 80 per cent on our shipments of select lobsters.

BY MR. FRANCIS:

Q. Do you have Government grading of lobsters in Nova Scotia? A. No, not of live lobsters. There is a Government law that we can't put anything over three and one-eighth inches on the market -- that is, from the socket of the eye to the back of the shell.

Q. Do you do anything to conserve the lobster bottoms in that area? A. I don't know as we do very much to conserve the bottoms.

Q. The bottoms are the beds? A. Yes, the ground that the lobster lives on.

Q. What steps do you take to preserve the lobsters from year to year? If you get small lobsters what do you do with

them? A. We put them overboard.

Q. You let them grow some more? A. Sure.

Q. With regard to the general price, leaving out of account the war situation, how does the range of price, since cooperative marketing was instituted, compare with the range prior to that time? A. I think we have gained two or three cents on the spread to our benefit.

Q. Apart from the war altogether? A. Yes.

Q. Due to your own efforts in cooperative marketing?
A. Yes.

Q. Apart from the economic benefits, are there any others that come from your cooperative enterprises in the west Pubnico district? A. I think there are.

Q. What are they? A. In the first place, we have benefited ourselves and those outside the cooperatives by bringing the price to the point where it is and the standards or grades where they are.

Q. Any other benefits? A. It has taught us that we can do our own business without going to the middleman.

Q. And you thought you could not do that? A. At first we thought so.

Q. Do you buy supplies cooperatively? A. Yes; we do buy our own supplies.

Q. Have you noticed any change in the cost?
A. There is a difference between wholesale and retail.

Q. Is that substantial? A. It is as good as we can do just now.

Q. Have you a membership fee in your federation?
A. We never had a membership fee.

Q. Do you have share capital? A. No.

BY MR. PARKER:

Q. You do not have to do business with the middle-man, but what will happen to him and his kind if this business goes much further? You don't pay any attention to him? A. We will pay attention to him.

Q. In what way? A. We will try to control him, whereas before, the people were controlled by that fellow.

Q. You want to put him where you were before? A. No. We will give him a living.

Q. And to the extent that he cannot do business with you he will have to look elsewhere for his livelihood? A. Yes.

Q. This increase in price that has come about -- it is pretty hard to say how much of that is due to war conditions, is it not? A. It is pretty hard to determine.

Q. Or the general market price, irrespective of who puts the lobster up? A. We had a general trend upwards due to the war.

Q. The cooperative effort has resulted in this, at any rate, that in so far as you save the commission or handling charges which you get, to that extent you increase your return, but beyond that the increased price is largely made up, I take it, of the general increase that has resulted from better conditions everywhere? A. Yes.

Q. Your market is down here in Boston? A. Yes.

Q. You are very handy to Boston? A. Yes.

Q. You can come in and get your crates on the Boston boats? A. Not at present.

Q. But ordinarily you can put them on the Boston boat at six or seven o'clock in the evening and the next morning

they are on the Boston market? A. Yes.

Q. You are nicely situated. How do you get them there now? A. We get them by smaller boats. They are taken to Maine and then by truck.

Q. Does the Government assist with the boats?

A. Not our groups.

Q. Do they in other parts of the province? A. Yes. We have a subsidized boat that carries lobsters to Yarmouth.

Q. You spoke about a higher price for selects. How much of that is due to the cooperatives? Have these Boston dealers become a little fairer in this matter? A. The difference is 40 per cent at least. I don't think they did.

Q. Didn't you yourselves take your own business a little more in hand and send better lobsters? A. Those that are not in the firm are getting the same returns as we, as far as culls are concerned.

Q. I am talking about your own cooperative. Is it not true that on realizing that there were so many of these rejects or lower grade lobsters you put your own house in order and took greater care to ship better lobsters?

A. We did put our house in order.

Q. And doesn't that account for the 75 or 80 per cent of the selects that you spoke of? Isn't that the main reason? A. That is one reason.

Q. It is the important reason? A. I don't believe so.

Q. I know something about the apple shippers and it works so far as they are concerned. You spoke about finding a market. After you became incorporated you went out to find a market? Perhaps you did not mean it that way, but there has been no lack of market for fresh lobsters in Boston

at any time? The market would absorb all you could get? A. The market was there, but sometimes it was mighty poor.

Q. The business has its ups and downs like everything else, but any trouble you had was not because of having a surplus of the commodity for which there was no demand. There was always a demand for lobsters in the Eastern States. A. Not always. There are times when you have to hold them back. They will not take your entire production in the month of May or December.

Q. Dealers will not take it at the price you want? A. At those times they will hardly give you any price at all because there are more than they can move.

Q. Is it fair to say that, speaking generally, there is no want of a market? A. Generally speaking there is a pretty fair market.

BY MR. FRANCIS:

Q. You stated to my learned friend that your returns had increased very substantially. Is it correct to say that your costs have also increased very substantially?

A. Cost of production?

Q. Yes. A. They have increased on about the same basis as returns.

Q. Take the matter of boats. When you shipped by the larger boats did it cost as much as by the smaller boats?

A. Not half as much. We used to pay 2-1/2 cents a pound for 200 pounds freight and now we pay 4 cents a pound straight.

Q. The question of control was raised. You hope to control your own business? A. Yes.

Q. You know Mr. MacKichan, who gave evidence this

morning? A. Yes.

Q. He is the General Manager of United Maritime Fishermen? A. Yes.

Q. And ordinarily he would be a middleman? A. Yes.

MR. PARKER: What do you mean, ordinarily?

BY MR. FRANCIS:

Q. If you were selling to a private wholesaler?

A. Or broker. Yes; he would be taking commissions.

Q. My learned friend suggested that you wanted to reverse this control. Have you seen any signs of Mr. MacKichan chafing under the control you have exercised?

A. Will you repeat that.

Q. Have you seen any signs of Mr. MacKichan not being contented in his work or feeling it a burden to be under the control which you and other cooperatives exercised over him? A. Not to my knowledge.

THE CHAIRMAN: That completes the brief?

MR. FRANCIS: Yes, my Lord.

.....

THE REVEREND J. D. NELSON MacDONALD,
President,
The Nova Scotia Credit Union League,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. For the purpose of the record I would ask you what positions you hold in the cooperative movement in Nova Scotia. You are President of the Nova Scotia Credit Union League? A. Yes.

Q. And you are President of the Nova Scotia Co-operative Union? A. Yes.

Q. And by profession you are a Minister of the United Church of Canada? A. Yes.

Q. In what year were you ordained? A. 1926.

Q. What is your church? A. Woodlawn United Church, Dartmouth.

Q. You are a graduate of what university?
A. Dalhousie.

Q. Pine Hill College? A. Yes.

Q. And Tiuro Normal School? A. Yes.

Q. In addition to your work as Minister, are you on the staff of St. Francis Xavier University?

A. I have been doing part-time work as director of zones.

Q. What is that work? A. The cooperative union looks after a number of zones. There are three zones, one in Cape Breton Island, one in the eastern part of the province, and one around Halifax county. I was living in Halifax as the President of the Co-operative Union and they asked me to take supervision over the part-time and full-time workers. My responsibility is to see that they do their work and give faithful service.

Q. Who are the men working with you now in that zone? A. Father Forest is a part-time worker in Larry's River, Father Johnson in Sheet Harbour area, and the Reverend Mr. Wolfe, who is a Church of England Minister; and there is Mr. Reed Sangster, who is a field worker full time. There are others who are part-time workers.

Q. To whom do you report in connection with this work? A. Doctor Coady.

Q. Will you please proceed. By whom was this brief prepared? A. By the Secretary of the Board of Directors.

2. Has it been approved by the Board? A. Yes.

2. And have you been authorized to present it to the Commission? A. I have. The brief reads:

"Section 1 -- Credit Unions in Nova Scotia

"Formation:

"In Nova Scotia Credit Unions are incorporated under the provisions of the 'Credit Union Societies Act' being Chapter 11 of the Nova Scotia Laws, 1932, as amended by Chapter 46 of the Statutes of 1935, Chapter 44 of the Statutes of 1938, Chapter 52 of the Statutes of 1939 and Chapter 42 of the Statutes of 1940.

"Growth 1936 - 1944:

	<u>1936</u>	<u>1943</u>	<u>1944</u>
Societies operating	71	204	213
Total membership	12,178	28,850	31,796
Total share capital	\$244,477.83	\$1,317,744.13	\$1,532,987.18
Total deposits	3,000.00	38,983.82	58,325.06
Total loaned during year	\$374,923.79	\$1,065,812.43	\$1,321,283.32
Total assets	\$269,044.96	\$1,469,280.53	\$2,026,797.98
Total guaranty funds	\$ 5,200.00	\$ 52,900.28	\$ 61,929.51
Total amount loaned from inception until Sept. 30/44			\$8,041,194.73
Total amount repaid (same period)		\$6,985,377.02
Amount of loans outstanding as Sept.30/44....			\$1,055,817.71
Amount charged against Guaranty Fund from inception until Sept. 30th, 1944			\$ 3,350.45

"Section 2 -- The Nova Scotia Credit Union League

"The Nova Scotia Credit Union League was incorporated under the provisions of Chapter 72 of the Statutes of Nova Scotia, 1938. By-laws of the League were approved by the

Lieutenant-Governor-in-Council on September 9, 1938.

"Objects and Purposes as set forth in the Act of
Incorporation are:

"(a) To promote the organization and development of credit unions in the province of Nova Scotia, and to encourage cooperation among credit unions.

"(b) To disseminate information regarding credit unions and their methods of organization and operation; and to foster by every lawful means the common good and welfare of credit unions;

"(c) To improve the internal management of credit unions and to coordinate their operating methods and practices;

"(d) To approve and copyright all bookkeeping forms and records used or to be used by credit unions, with a view to maintaining a uniform system of credit union bookkeeping; and to purchase bookkeeping and other office supplies for the purpose of re-sale to credit unions, and to use any profits resulting from such business activities for the general purposes of the League;

"(e) To arrange for the group bonding or insurance of credit union employees holding positions of trust, in order to protect credit union funds against loss;

"(f) To accept and administer any voluntary contribution or other subsidy that may be received by the League;

"(g) To receive such moneys as may be deposited with the League by credit unions holding membership therein, and to loan the moneys so received to credit unions borrowing under Sections 34 and 35 of Chapter 11 of the Acts of 1938, and in the absence of such loan demand to invest the said moneys in the investments provided for in Section 12 (e) of the said Chapter, or to deposit the said moneys in chartered banks of Canada."

"Membership:

"Membership in the League is voluntary, and is open to all credit unions in the province of Nova Scotia upon payment of an entrance fee of \$2.00. Application for membership must be approved by the Board of Directors of the League.

"The League has a membership of 185 out of a total of 213 credit unions organized in the province.

"Departmental Set-up:

"(a) Educational and Promotional. This Department provides the educational and promotional facilities necessary to the formation and organization of new credit unions. Special attention and guidance are given to such credit unions as have not had the benefit of advanced leadership, and this is particularly so in remote rural areas. The sources of the funds required for these purposes are the membership fees and such annual dues assessed to members as may from time to time be agreed upon at the annual convention of the League.

"(b) Printing: Due to difficulties encountered by credit unions in obtaining bookkeeping supplies and necessary forms, a Printing Department was set up in March, 1941. Previous to the formation of this Department only two sources of supply were available, one of which was located in the province of Quebec and the other in Madison, Wisconsin, U. S. A., but due to war conditions and other causes deliveries were slow and the League which up to this time acted as purchasing agent for such supplies was on many occasions unable to fill orders for its members on short notice. This Department now does the printing of all bookkeeping forms, special forms and educational literature, and acts as a central supply house for all credit unions in

the Maritime provinces.

"(c) Bonding. The League supervises the bonding of treasurers and sub-treasurers of all credit unions in the province, and makes a charge of 50 cents per \$1,000 for its services. in this respect."

That is per year. Continuing:

"The revenue is placed in a bonding reserve account in anticipation of the time when the League will be able to set up its own bonding department. The type of bond used is a blanket position bond.

"(d) Deposit and Loan. On March 21, 1939, a Deposit and Loan Department was created for the purposes of accepting for deposit Guaranty and surplus funds of credit unions in Nova Scotia and providing a source from which the credit unions might borrow.

Guaranty Fund. A fund set aside by a credit union and amounting to 20 per cent of its net annual earnings. It is required by law to be set aside as a reserve against bad loans and is not to be disturbed except on liquidation. It cannot be loaned to members and must be kept liquid and intact.

"Surplus Funds -- Credit unions may deposit their surplus funds with the League for a period of one, two or three years or on call. The League, in turn, may invest the same in any legal investment authorized by law for trust funds in the province of Nova Scotia.

"The total invested in liquid securities as at December 31, 1944, amounted to \$288,790.34, and in the last two Victory Loan Campaigns the League purchased Victory Bonds to the aggregate amount of \$120,550, an investment which for the greater part was made possible by the small savings of credit union members.

"In addition to its investments in liquid securities the League has made provision for loans to members of credit unions by way of first mortgages on improved real estate at a rate of interest of 5 per cent per annum calculated half yearly not in advance. The principal and interest is amortized over the term of the mortgage. This service has enabled many members to purchase, build and improve homes at a much lower cost to themselves than would be otherwise obtainable. The first of such loans (\$2,800) was granted March 29, 1943, and at December 31, 1944, a total of \$128,265 was loaned to sixty-three credit union members in the province. In this connection it is significant to note that to date no default has been made by any borrower on his instalment payments.

"As a protection for both himself and the League each mortgagee is advised to effect upon his life a single premium decreasing term insurance policy with Cuna Mutual Insurance Society in an amount equal to the principal of and interest on the loan and for a term equal to the term of the mortgage. The policy is made payable to the League and calls for a single premium payable in advance. In case of the death of the mortgage during the term of the mortgage it provides protection to an amount equal to the balance of principal and interest due and payable on the mortgage at date of death. Such insurance is effected through the League facilitates at a rate much lower than that obtainable for similar insurance due to the fact that no Commission is allowed on premiums to agents by the insurer.

"Of the mortgages outstanding, eight are held on properties situate in rural communities, twenty-eight in

mining towns and twenty-seven in urban centres.

"The League also makes loans to its members at a rate of interest of 1-1/2 per centum per month. The total of such loans as at December 31, 1944, amounted to \$8,400.

"Management - The management of the League is vested in a Board of Directors appointed at the annual meeting by delegates from member credit unions. Each member union has the privilege of sending two voting delegates notwithstanding that its membership might be small or very large.

"Earnings -- After provision for salaries and expenses of management the surplus earnings of each department of the League are retained or distributed as follows:

"(I) Educational or General -- Surplus earnings are held in reserve for future educational needs and deposited in a chartered bank. At the end of the fiscal year, June 30, 1944, these surplus earnings amounted to \$6,494.59.

"(II) Printing -- Any and all surplus earnings from this source are held in a reserve set up for contingencies. This Department during the first three years existence operated at a loss but at the end of fiscal year June 30, 1944, showed surplus earnings of \$114.18.

"(III) Deposit and Loan -- Surplus earnings amount to \$8,975.80 as at June 30, 1944, and were distributed as follows:

5 per cent of the total (\$448.79) placed in
Educational Fund

3 per cent interest (\$6,630.30) paid on surplus funds
accepted from members for deposit

2 per cent interest (\$802.27) paid on Guaranty Funds
accepted from members for deposit

Balance \$1,094.44 carried into a reserve fund.

"Affiliation with the Credit Union National Association
(Cuna):

"At the annual convention of the League held in July, 1940, delegates in attendance voted unanimously to affiliate with Credit Union National Association of Madison, Wisconsin, U. S. A. Among the benefits derived as a result of the League's membership in the Association are the rights of credit union members to take advantage of the low rate types of insurance offered by the association.

"Through its affiliation with Cuna the League has obtained permission to print and distribute in Canada the standardized bookkeeping forms for credit unions, and is kept posted on all matters affecting the movement not only in Canada but in the United States in the way of supervision and legislation.

"Two delegates from the League attend the annual meeting of the association and are entitled to vote on all matters brought before the association.

Section 5

"Taxation:

"Credit unions in Nova Scotia and The Nova Scotia Credit Union League have not been assessed under the Income War Tax Act. No request has been made for either the credit unions or the League to comply with the provisions of Section 92 of the said Act which requires any corporation paying dividends on shares to deduct a tax of 7 per cent at the source.

"Shares in credit unions are not in the ordinary sense of the term shares at all. They are more in the nature of a unit of saving. No certificates are issued by any credit union in the province and although money paid on shares is recorded in a pass book there is nothing to indicate in that

pass book that the holder is the owner of a share. Share capital can be withdrawn, and the only restriction on withdrawals is that set forth in Section 40 of the Act of Incorporation. This section provides that a credit union may require ninety days notice of intention to withdraw shares of such additional notice as, in any given emergency, the directors of the credit union may deem to be necessary except that said additional notice shall be subject to the approval of the Registrar of Joint Stock Companies.

"Credit Unions are administered entirely by their own members and all officers give their services free of charge except in the case of a few of the larger credit unions where the treasurer is a paid employee. The time and effort expended is usually out of all proportion to any material benefits that these officers can hope to receive from the organization, but they are satisfied that they are doing a job of real value to society and they are content to do it without remuneration. To require credit unions to comply with the provisions of Section 92 of the Income War Tax Act by deducting a 7 per cent tax on dividends at the source and completing and filing T.5 Income Tax forms in quadruplicate each year would be to impose upon these officers an extra hardship and burden. The result could very well be that these officers could not undertake the additional responsibility and work entailed and the social and material value of credit unions would suffer considerably.

"Approximately 32,000 persons are now banded together in 213 credit unions in Nova Scotia, and in the past ten years have made loans to themselves to the aggregate amount of more than eight million dollars. What does this mean? Ten years ago the credit union movement was in its infancy.

Yet during that period, which included the dark years of depression credit unions accepted for deposit thousands of dollars which many people believed did not exist. They have made available to their members funds to meet emergencies, to buy productive equipment and to purchase durable consumer goods -- funds that were formerly unattainable except at usurious or prohibitive rates of interest. Is it any wonder that members have acquired a supreme confidence in the credit unions that they have built and control? Is it any wonder that these credit unions give their whole-hearted support to the Nova Scotia Credit Union League whose objects are to promote, supervise, and protect the credit union movement in the province. Credit unions and members through the membership of the union in the League participate in all the benefits derived by the League through its affiliation with the Credit Union National Association. Among these benefits is the right of credit unions and their members to take advantage of the various low rate types of insurance offered by Cuna Mutual Insurance Society, such as loan protection, share insurance, mortgage insurance and all the different types of life insurance.

"31,796 people in Nova Scotia know that through their credit union and the Nova Scotia Credit Union League man is learning to cooperate with his fellow man -- the burdens of the poor are being lightened and the lives of the afflicted being brightened. Through their credit union and the League the democracy which they have enjoyed politically is being extended and expanded to the field of economics. Surely such a programme is worthy of our every effort to protect, perfect and perpetuate.

"We submit that this great work of both credit unions and the Nova Scotia Credit Union League should not be discouraged by taxation.

"All of which is respectfully submitted.

Nova Scotia Credit Union League

Per: J. D. Nelson MacDonald,
President."

Documents filed with brief:

- 1. Copy application form (Nova Scotia Credit Union League)
- 2. Copy by-laws for Nova Scotia Credit Union League
- 3. Copy Deposit Receipt Form - Nova Scotia Credit Union League
- 4. General statement for period June 30, 1944 to December 30, 1944 (Nova Scotia Credit Union League)
- 5. Balance sheet - December 30, 1944 (Nova Scotia Credit Union League)
- 6. Semi-annual statement - half year ending December 30, 1944 (Nova Scotia Credit Union League)
- 7. The Credit Union Societies Act

.....

BY MR. FRANCIS:

Q. When Mr. MacIntyre presented the brief on behalf of the Nova Scotia Co-operative Union, Mr. Chairman, I intimated that the Reverend Mr. MacDonald, President of the Union, would support that submission as well as the submission now made. I would therefore like to ask Mr. MacDonald a few questions at this stage in substantiation of both briefs. Mr. MacDonald, when did you first become interested in the cooperative movement? A. The very first time I heard the word cooperative, so far as I can remember, was in 1917 when a gentleman from Truro came in to our community

advocating the purchase of shares in the Co-operative Wool Growers Limited. That was during the last war.

Q. That is the organization that is now carrying on?

A. Yes.

Q. With headquarters at Toronto? A. Yes. We bought a few shares.

Q. You bought some shares? A. Yes.

Q. That was in connection with the marketing of wool. Were you engaged in that? A. I was engaged to some small extent in that myself.

Q. Have you been interested in the movement from that time? A. During my years in college I did not have an opportunity of doing much, but once in a while I tried to sell a few shares. I did help a bit there and that is all I did, but I was interested in the work of the economic department while in college.

Q. When did you first have charge of a congregation? A. Immediately after graduation I went to the mines and stayed there a number of years.

Q. When did you go to Baddeck? A. In July, 1931, and I was there from 1931 to 1943.

Q. From 1931 to 1943 you were Minister at Baddeck. Will you point out Baddeck on the map? A. There it is, on the Bras d'Or Lakes.

Q. Was your interest in the cooperative movement revived at that time? A. I would not say I was at that time exactly interested in what is now known as the cooperative movement, because although I was naturally interested in cooperation among farmers, as I think I am in cooperation among all classes of society, I had not yet come to regard it as a cooperative movement in the full sense in which we now understand those words. The depression did not strike

us in the rural areas as quickly as it struck the people in the industrial centres, as you can understand; but by 1931 its impact began to be felt and when I moved into the district it was quite apparent to me that many of these farmers had suffered a great deal. They were shrewd, hard-working, thrifty Scotch folk with lots of grit, who, I am sure, in more favourable times had been neither idle nor improvident. but whose resources were visibly dwindling. In fact, they had got to the place where they could not buy feeds and such things for their cattle and the result was that, in spite of their fine qualities, they were having to sell of their cattle and their farms were going down. At that time the Department of Agriculture was taking a lively interest in the condition of the farmers and two of their men who came around the place seemed rather surprised that a Minister of the Gospel should be interested in the problems of farmers. I felt, however, that any clergyman, either minister or priest, should be interested in the welfare of his parishioners and so, of course, I went to their meetings and helped them to thresh out their problems; and perhaps it was natural that they should come to look upon me in a way as a leader. Anyway, that is how we got started in the work.

Q. Did they form study clubs? A. Yes. We formed study clubs and soon began to work in with the Extension Department of St. Francis Xavier. I may say that prior to that time Doctor Coady and others had come into the community. We tried to institute a programme of adult education among the people. Thirteen years ago we were groping in the dark trying to understand our own problems, to find out what was wrong with the economic set-up: why

it was that there were people everywhere who were living almost from hand to mouth while there were some who seemed to them, rightly or wrongly, to be revelling in wealth. They could not understand the depression. The majority of the people were more or less poor.

Q. How many study clubs did you have? A. We organized about ten study clubs. We were carrying on these activities in my own congregation.

Q. What steps were taken as a result of your studies? A. First of all we studied livestock problems in connection with marketing, and when the credit union movement began to make itself felt in Nova Scotia we took up the study of the subject. We did not know as much about credit unions then as we do now but we studied the whole thing and it took us two years to get to the place where we felt reasonably safe in trying to start a credit union movement, and then we organized four unions in that area in a short time.

Q. Did you accumulate savings from those unions? A. I remember the first study club we had in my own house. We had eight people there and the first night we took up a collection and got 35 cents. It was not much of a bank but over a period of years there would be four or five thousand dollars.

Q. After you accumulated savings what was the next venture? A. Prior to my coming, there was in that area a shipping club working through C.L.C., who shipped livestock in that area. They felt that they should start a buying club, but being on the cost plus basis they were not able to expand. There were no resources. At the end of the year they had a blank balance sheet. I did not think it was the best method of carrying on business and it did hurt the

private merchants who were in the town and were trying to give service. This business of selling on the cost plus basis put them in an awkward position. The question then came up of starting a store on a proper basis, and the problem then was how to get money. That was where the credit unions came into the picture. What with such money as the people had, what they had in the credit unions and what they could borrow, they were able to buy a dilapidated building -- nothing very handsome -- and in addition to that they got some stock for the shelves. The property cost \$450 and they had \$800 left over to put goods on the shelves.

Q. Did they build up a surplus from the operations of the store? A. The leaders took the position that any surplus that was accumulated should not all be returned but some should be left as reserves against a rainy day -- and the rainy day came. After a little while they found the horses they used to get from the west were not suitable. I am not casting any reflection on the west, but the fact is that the horses coming from that dry climate to the sea were not suited to our conditions, and the first thing we knew they had the heaves. The stock was good but not for our purposes. The question then was, how to get better stock, and the agricultural representatives suggested that they bring in a pure bred stallion. But where would they get the money? At that time we had accumulated \$1,800 over a period of four or five years and they took \$900 of that and sent a man to Quebec -- that is a little plum to the Quebec people -- and they got one of the finest stallions you could imagine coming from Quebec, a beautiful Percheron named Achille, and in four or five years you would not have known that community. They had fine colts, fine horses. That is

where the surplus came into the picture.

Q. There was a definite improvement in the stock in that community? A. Naturally. The mares the people had, which had come from the west, were really good animals, and with this purebred stallion you can be sure the stock would be very good.

Q. Was this handled by the cooperative? A. Yes.

Q. Was anything done about the marketing of poultry?

A. Yes. I am sorry you compel me to bring myself into the picture, but I am in the habit of going around with the farmers and I use a bit of psychology in my approach to them. I would look at a barn and wonder how they got along, with a few hens in the cow stable roosting on the backs of the cattle. It was warm, though; that was one thing about it; but they had perhaps only twelve hens or so and a rooster. Well, these people would say to me, "What is the use of having more? They supply us with a few chickens and eggs for our own use and there is no sense in keeping more because there is no market for them." Now there was a strange thing. That was the condition one found in the days of the depression. With industrial centres having a population of 150,000 or 200,000, you could find people a short distance away telling you that there was no market. The answer was volume and quality. The farmers would have to sell in a collective way, and through their stores and the credit unions and study clubs they did that very thing. How would they get the volume? One man could not afford to buy a thousand chickens; it would cost \$750, because it takes 75 cents to raise a chicken to maturity and put it on the market. But ten men could get together, having 100 chickens each, and they could create a pool, and in that way they would have the

quantity. And so they shipped the poultry through C.L.C. to the highest bidder. Do you want me to continue?

Q. I want to know whether they actually did develop substantial flocks in that area. A. Oh yes; some of them would have over a thousand. Last year I was there and some of them had 1,500 -- all kinds of them. But the thing that was worthwhile about it was this -- and personally it meant a great loss to me, as of course it meant to other people, because I used to buy chickens dressed for 50 cents in 1931 and 1932, and after two or three years I paid \$1.50 for the same birds.

Q. And that increase came about -- A. As a result of quality and quantity and orderly marketing.

Q. What about medical care in that district? Did the people do anything about that on a cooperative basis?

A. I don't think there are many people here today who do not know something about conditions in Nova Scotia as far as medical attention is concerned, and certainly I am conversant with it myself. Victoria county is a long county, about one hundred miles, and in the winter the only way we could get around, in past years at any rate, was by dog sleigh. We had one doctor for the whole county when I was there and he was worked off his feet, but some of the people around felt that they could get together and form a little cooperative, a medical scheme of their own. Through study clubs and credit unions they worked with the doctor, and that sort of thing was carried on satisfactorily for a number of years until the war came along.

Q. How is the service provided -- out of what funds?

A. It was provided in two or three ways. A person himself

could pay so much, the necessary funds being deducted from his savings in the credit union, if he wished to do that, or from the store.

Q. From his patronage dividends in the store?

A. Yes; any way he wished.

Q. Was there a cooperative sowing outfit and threshing machines? A. For many years there were little company sowing outfits on a cost plus basis. That was carried on for twenty-five years but now they have formed cooperative threshing outfits.

Q. Was anything done about rural electrification?

A. Yes; that is another thing. The people got together and said, "What are we going to study now? We have a credit union, a store, the livestock situation is coming along nicely. What are we going to turn our attention to now?" Well, we studied the school situation from the standpoint of rural education, and we looked into the question of better relationships between teachers and parents. Rural school children are leaving school, most of them, before they get to grade eight or nine and according to statistics received from the Department -- I had them in my hand the other day -- we found that in the rural schools in Cape Breton, and in the province of Nova Scotia generally for that matter, they have been trying to take them up to grades nine, ten and eleven. You can imagine that with eleven grades the children will not get very far and the result was, according to the statistics and the report of Dr. Henry Munro, of the Department of Education, only 19 per cent of those who wrote the high school examinations passed, and they often wrote two or three times, while up to 60 per cent of those in the urban

areas passed. The people came to the conclusion that the children in the rural areas had no brains; they seemed to take it for granted that anyone could be a farmer. Certainly they were depressed, and I had the courage to tell them that in my opinion the farmers were as bright as anyone else. We came to the Government and they were quite cooperative with us and the result was that we took the children to town. We took them by buses and that meant opening up roads by snow ploughs.

Q. And did you get the Department of Highways to cooperate? A. Yes. They gave us ploughs and the Government paid for the buses. The first year we sent ten from grade twelve into town and forty from grade eleven, and of the ten from grade twelve, nine got a full pass and the others partial, which was as close to 100 per cent as you could come, while of the forty from grade eleven, 85 per cent passed, which was a record in that community.

Q. What about the electrification? A. You ask about electrification. In the study clubs we asked ourselves, "Why have we not got electrification? Is Victoria county in the sticks?" The people got together and started a campaign of petitions and letters until the Department of Public Utilities gave way to their importunity, with the result that after a while these folk got what they were looking for. Electrification came into the rural areas and changed the face of things, so that there you have better homes and better facilities and the people are able to do a great many things that they could not otherwise carry out.

Q. It has been suggested before this Commission over and over again that the cooperatives were tending to drive the

independent merchants and independent businesses out of existence. In the community with which you are familiar, and have been familiar for many years, what have you to say about the situation there? A. May I give you a personal example? When I went there I dealt with Macleod and Company. He was like the farmers; they were hard up, they found it hard to make a living, and he had a hard time. I remember his taking me one day into his office where he showed me over \$20,000 on the books and he said, "I would gladly let it all go for a small amount of money because I shall never get it anyway." When we started to organize he said, "What am I going to do now, since you fellows are going to open a cooperative store?" He is now a commercial traveller, by the way. I said, "I don't know; perhaps you had better go farming; it wouldn't be a bad thing. The farmers have kept you going this long; why not try it yourself and go into farming?" He replied, "I am afraid I am pretty old to start farming now." The credit unions put these farmers on a cash basis. That store is still going.

Q. Still in existence? A. I don't think he has the volume he had but he has more money.

Q. You have been in an excellent position to see some of the results of these cooperative developments in Baddeck, and I would like you to indicate to the Commission, if you will, what you consider to be the effects.

A. To begin with, looking at it now over fourteen years, there would be first of all the economic betterment. The people have received more for the things they raised. They have a better outlook on life. In the audience this afternoon there are some people who have been in that

community and whom I have seen growing up. I could call them by name. They have confidence in themselves, because now we can really do things. It was not an easy thing to do but we did it and we are able to produce better now. Take turkeys. In one section down here in Victoria county, on the north shore, only one man had ever seen a turkey in years. He said, "I am the only fellow there that ever saw a turkey", when Mr. Milligan, who was Agricultural Representative, and some of us went there. Turkey eggs were brought there and they raised turkeys, some of which have gone on the British market, so good that the High Commissioner sent word over -- you can find these statistics in the Department of Agriculture -- intimating that the turkeys from this area, where the people had never seen a turkey five years before, were equal to anything that had ever come even from western Canada. That was the first thing -- community betterment, better homes, better education, cash business and a spirit of goodwill.

Moreover, you would be surprised at the falling away of barriers in that community, barriers of prejudice between Presbyterians and United Church adherents, between United Church and Methodists, between Methodists and Baptists, and between the Catholics and all of them. But when you are sitting around a table, a Presbyterian Elder over there, a United Church Minister over here, a Catholic Priest sitting beside a Church of England Clergyman, you either have to fight or come together. And so they came together. And talk about politics; my goodness! An election was something you dreaded, because it would take four or five years to overcome the effects. But since these people have got together in the cooperative group, each finds

that the other is not as bad as he thought.

Q. Before I turn you over to Mr. Parker I would refer to a rather mundane matter. Why is the Credit Union National Association commonly called Cuna? A. In the United States the credit unions organized into a national credit union. The movement brought them together the same as the credit unions in Nova Scotia have been organized into a league. The leagues in the United States came together and organized a national body which today has become international.

Q. Who owns Cuna? A. It is owned by the credit union members all over America.

Q. Including Canada? A. Yes; we are members.

Q. Why did the Nova Scotia Credit Union League join Cuna? A. We might say we owe a great deal to Cuna, for it is doubtful if the credit unions would have come in Nova Scotia and perhaps in the other provinces of Canada, except Quebec, where Caisse Populaire had been carrying on for many years, had it not been for that organization. Cuna started in Nova Scotia and spread to New Brunswick and Prince Edward Island and British Columbia and the plains. The Managing Director was a great friend of the credit union movement of Nova Scotia and we felt we should belong to that body, because we are trying to establish goodwill not only among our own people, as between province and province, but also internationally. The types of insurance Cuna gives us we could not obtain anywhere else, share and loan insurance.

Q. Has Cuna a mutual insurance company registered in Canada? A. Yes.

Q. Do you know what deposit it had?

A. Roughly speaking, \$100,000.

Q. That was deposited in Canada at the time of registration? A. Yes.

BY MR. PARKER:

Q. You are the President of the League and of the union both? A. Yes.

Q. How long have you been occupying these two positions? A. From exactly the same date, last July.

Q. I suppose the work of these two unions --
A. To get this on the record, it is rather absurd to think of my being both, but one is by accident. We promote our officers in the Credit League by seniority more or less, so that the Vice-President takes the Presidency, and it so happened that his term was up. I want to have that straight.

Q. There is no objection to holding two offices. I suppose the duties of the two take up a considerable portion of your time? A. It depends on how much you plan. If you don't plan it does.

Q. Doesn't it take a considerable portion of your time? A. Oh yes.

Q. You still carry on your clerical duties?
A. My church is my main work, my congregational work.

Q. I would judge from your evidence that you are a firm believer in the cooperative movement generally and in the credit union in particular. Right?

A. Ipso facto, I think.

Q. In fact, you are an enthusiastic believer in its principles -- or am I putting it too strongly? A. No; that is right.

Q. You are pretty familiar with the structural and the financial set-up of the credit unions particularly, of the

way in which they receive their funds and handle them and disburse them, and all that sort of thing? A. Yes.

Q. Will you look at page one of the brief. You furnish some figures. I suppose you are responsible for the set-up of these figures? A. Those figures are taken from the Registrar's office. They are really figures by Inspector Lawrence Macdonald.

Q. Who decided what figures from the report should be inserted and what should be omitted? A. We took all the figures we could. At the executive meeting we decided on this.

Q. Who decided which years would be selected to be put in your brief and which years should be omitted?

A. I did not copy these. The Managing Director and the Assistant Managing Director copies them down from a sheet they got from Mr. Macdonald; 1944 and 1943 would go together.

Q. Direct your attention to my question, if you please. You have given us the data relating to the year 1936 and nothing from 1936 until 1943, that is six years. You have supplied no data for those years. You notice that? A. Yes.

Q. The figures leave out the last two or three pre-war years and also omit the first two or three war years? A. Yes.

Q. So that there is no information there to show what the growth was in those years? You show seventy-one societies operating in 1936, 204 in 1943. I should like to know what proportion of that increase, which represents 134, came into being after the war broke out. A. I haven't got it here but it can be obtained for you.

Q. Would you mind getting that?

MR. FRANCIS: Mr. MacSween arranged to get all that.

BY MR. PARKER:

Q. I wondered how you came to pick those two years for purposes of comparison? A. I cannot answer that.

Q. And that applies to all the rest of the data given in these tables? A. Yes.

Q. The total membership in 1936 was 12,000 and in 1943 28,000. How many of the 16,000 representing the difference were acquired after the war commenced?

A. Naturally, I would say, without having the figures before me, that there would be a greater increase in the post-war and war years than before. I would say that.

Q. I suggest that the rapid increase in the number of societies, the total membership --

A. Not societies.

Q. I suggest that the great increase took place during the war years. A. Not societies.

Q. What do you say as to the total membership? That 16,000 took place, the bulk of it, in the war years? A. I would not be sure of that.

Q. Let us take the next one, share capital. That jumped from \$244,000 in 1936 to \$1,317,000 in 1943. Would you say the bulk of that was acquired in the war years? A. I would not say the bulk of it.

Q. The total deposits increased from \$3,000 in 1936 to \$38,000 in 1943. Was the greatest amount of that acquired in war years? A. No. We are not stressing deposits.

Q. The total loans in 1936 amounted to \$374,000 and in 1943, \$1,065,000. I need not labour the point. All I am

directing attention to is this. Is it not a fact that the proportions to which these unions have reached in 1944, the growth they have attained from 1936, can be attributed not only to their own inherent worth, their natural expansion because of the service they render, but also to war conditions? Can you tell me in what proportions that expansion is attributable to those causes respectively?

A. Do you want an answer yes or no? If you do, I cannot answer the question.

Q. I do not want that. Listen to the question and you will be in a better position to answer it. I wish to have your views, the best you can give me, as to how you would apportion the credit for that growth as between war conditions and the inherent qualities of the movement itself. Can you answer that question? A. Taken by and large, with the exception of certain fishing communities and perhaps a few industrial areas, I think the growth was more rapid, as far as capital was concerned, in the years before the war than it has been since.

Q. Will you be good enough, then, to have prepared and send to the Commission -- A. I will try to do that.

Q. Do what? You did not hear the end of the question. A. I will try to find out the growth in the rural areas and the fishing communities.

Q. Will you prepare the same data for each of the years? A. Yes.

Q. And we will not have a guess about it. Now come to the fifth item, total loans. During 1936 they amounted to \$374,000 and in 1943, \$1,000,000 odd. Can you tell me how much -- A. Which one is that?

Q. The fifth one, total loans during the year. Do you mean by this, the union as such or the members of the union? A. The credit unions.

Q. The aggregate loans, taking all unions of the League? A. Yes.

Q. Am I right in saying that the primary purpose in forming these credit unions was to have money to loan to needy members? That was the primary objective?

A. There are three main things.

Q. Was that the primary one? A. I am not quite definite. That is one and it is an important one, but whether it is more important than the social side I am not ready to admit.

Q. At any rate, the financial element was the primary one? A. Yes.

Q. It was to keep people of small means away from the loan shark? A. Yes.

Q. That was the purpose of gathering these funds together, so that there would be some to loan. Now, of that \$374,000 how much was loaned to needy members?

A. I would say all of it; practically all of it.

Q. And the same thing in all succeeding years?

A. I would say so, because it can be loaned only to them.

Q. Are those the only persons to whom it can be loaned? A. Not necessarily but it is loaned only for need.

Q. Is it on loan only to members of the union? Do you make loans to anybody but members? A. That is all, only members.

Q. You do not make it on the basis of granting a needed loan to a man who finds himself in a pinch?

A. Not necessarily.

Q. In fact a great many of the loans have been made on mortgage? A. Now you are talking of a different thing. You are talking about the League. There has been some in the credit unions, but not so much.

Q. The individual unions I am talking about. I am asking you whether they are loaning money not merely to needy borrowers but for ordinary mortgages? A. Will you let me explain.

Q. Are they doing that sort of thing? A. Not so much now.

Q. And in addition to what the individual unions lend out in needy cases, they loan money for mortgages?

A. Mortgages would be needy cases too.

Q. But they cannot loan or money they have on hand. The surplus is handed to the League? A. Some credit unions will have a surplus.

Q. That is where the League gets money? A. Yes.

Q. And the money which the League lends out, does it lend to needy individual cases or in large blocks?

A. There are two things. The credit union league lends money first to member credit unions who have not enough to satisfy the needs of their members.

Q. I understand that. But -- A. That would be the first call on the League, and the other is where there are members of credit unions who find it difficult, as sometimes they do, to obtain money from other sources and come to the finance committee of the League and make application. If the League considers their case is needy we will grant the loan to them on first mortgage.

Q. I am only trying to establish the principle; I am not particularly interested in the details.

According to the way these credit unions operate, either individually or through the League, is it not true that they have gone into what we might call the business of loaning money on security, buying securities and selling at a profit -- in other words, on a small scale, the mortgage loan corporation and investment business, in part?

A. I am not conversant with companies of that nature; I am not conversant enough to say: I would have to study it.

Q. Will you be good enough, while we are on that, to turn to the last page of the brief just before the printed factum where you have given a semi-annual statement. Is this a statement of the League or is it a statement of all individual unions which form the League -- an aggregate statement? A. Is that the one that starts "Deposit and loan department?"

Q. Yes. A. It is the League.

Q. This represents the League and they received during the half year guaranty funds amounting to \$3,581.95. What are these guaranty funds? A. When you form a credit union, the first thing the law compels the member to do when he applies on the membership card is to lay aside 25 cents, which constitutes the nucleus of a guaranty fund. That is the first step.

Q. I want to know who is the owner of that 25 cents. That 25 cents is paid to the credit union, a corporate body? A. It is paid to the credit union, yes.

Q. It is paid to the corporate body? A. Yes.

Q. And it becomes that corporate body's funds for all time? A. No.

Q. On what terms does the man who puts up the 25 cents get it back? A. On liquidation.

Q. So that as long as the company endures it belongs to the company. That is what the guaranty means? A. Yes.

Q. An accumulation of these bits of money? A. Yes.

Q. That is one source from which the credit union gets funds? A. Yes.

Q. Now we come to deposits, \$71,000 odd. These are ordinary deposits, as I understand it. A. Yes, surplus of credit unions.

Q. Is it ordinary money deposited with the credit union, who brings it in the same as I take money to a bank? A. A credit union has, say, \$3,000 over and above the amount required to satisfy the needs of its members and it sends that on to the League to be held in trust as a deposit.

Q. I have dealt with the two of them. Money comes to you as the excess that individual unions have. But the union gets its funds from the ordinary deposits which its members make with it, the same as a deposit in a bank? A. Yes, the same as deposits, you might say.

Q. And this is what you get in a half year from your member unions, and you loaned \$4,200. Were those loans made to member unions? A. To credit unions.

Q. To be loaned in turn to individuals? A. Yes, for production.

Q. You have interest on investments, \$5,467. That much money represents investments of income, a substantial investment? A. Yes.

Q. What kind of investments does the League carry

yielding \$5,467 interest in a half year? A. According to the law --

Q. I did not ask you about the law. Answer me, please. What kind of investments are they?

A. They are Victory Bonds.

Q. I asked you what investments the union had which yielded \$5,467.00 interest in a half year. What do they consist of? A. One would be Victory Bonds.

Q. How much in Victory Bonds? A. \$120,000 odd.

Q. What other kinds of investments have you?

A. No other.

Q. No other? A. I am not conversant with all of them.

Q. Tell us some. A. Provincial or Dominion bonds.

Q. Provincial bonds? A. Yes.

Q. Municipal bonds? A. I am not so sure of the municipality.

Q. If you are not sure, that is all you need to say. Are there any institutional or private bonds? A. What do you mean by that?

Q. Don't you know what I mean? Bonds of any private corporation. A. I could not answer that.

Q. Who can tell me that? A. The Assistant Managing Director could.

Q. Interest on mortgages is the next item. Does the credit union hold mortgages on certain people's property? A. The credit union does.

Q. This is the Credit Union League. This is the statement of the League? A. This is money that came in from mortgages made by the Credit Union League.

Q. What kind of mortgages, and on what kind of

property? A. More realistic.

Q. Whose properties? A. Members' in all cases.

Q. In substantial amounts? How big is the biggest of the loans? A. The biggest would be \$5,000.

Q. And it may run all the way down to what?

A. The average is \$1,800 or \$2,000.

Q. At any rate the union has several mortgages yielding that much interest in a half year? A. Yes.

Q. Then you have payments received on mortgages during the same period, just under \$6,000. Are these reducing mortgages, instalment mortgages, paid back on a monthly basis like ordinary loan companies?

A. Yes.

Q. Then you have bank exchange and sale of investments. During the half year you sold \$72,000 odd. What do you sell? A. Bonds.

Q. What bonds? A. Possibly Victory Bonds.

Q. You buy Victory Bonds during the loan and sell them?

A. The primary function of the credit union is to supply the needs of members, so if it came to the place where we would have to sell Victory Bonds we have to sell them, although we don't like to do that.

Q. I am asking what the sale of investments was, what you sold, and why you sold. Was it Victory Bonds sold during the half year? A. I don't know.

Q. If you wish to consult your bookkeeper that is all right. A. They were not only Victory Bonds but bonds that had expired, or matured rather.

Q. How many of these were really sales and how much is represented by maturities? I am not interested in particular amounts. All I want is a statement that truly reflects the facts. Can you tell me how much represents maturities and

how much represents straight sales? A. I don't know personally.

Q. Now let us look at the other side. Under "disbursements", you have deposits \$28,000 odd. How do you disburse deposits? A. Well, the same as you would in the bank.

Q. It means amounts withdrawn? A. Yes.

Q. Then you have loans amounting to \$10,800, and investments purchased \$57,000. What kind of investments did you purchase in this half year to the tune of \$57,000? A. This would be trustee investments including Victory Bonds.

Q. Town of Glace Bay bonds or private bonds?

A. This would be Victory Bonds and other bonds that we can buy.

Q. Miscellaneous investments? A. According to the law.

Q. That is the principle you operate on? A. Yes.

Q. During that same period you disbursed under the heading "mortgages" \$73,930. Did you loan on mortgages during the six months approximately \$74,000? A. Yes.

Q. Ranging from what? A. \$700.

Q. Up to \$5,000? A. Yes.

Q. During that period of six months you must have put through from fifteen to twenty loans? A. Approximately.

Q. Look at the lower part of the same sheet, in the balance sheet section. At the end of this year this union had investments, at the time this statement was made up, on December 30, 1944, to the extent of \$288,790.34?

A. Yes; that is right.

Q. I suppose that is largely Victory Bonds, the biggest proportion, and some provincial bonds, and miscellaneous securities? A. Yes.

Q. And you have outstanding mortgages to the extent of \$113,000 odd? A. Yes.

Q. At the end of the year you only had \$21,000, so that you must have loaned \$91,000 during the six months' period? A. Yes.

Q. So you are doing a substantial business in the lending business. That is done profitably, I take it? It is a profitable business to the union? A. What do you mean by profitable business to the union? The union gets nothing out of it.

Q. I mean whatever you mean. A. We are agents for the credit unions.

Q. I merely put it to you this way. After lending money and collecting interest and paying the necessary charges -- A. We were not in the red.

Q. There is something left over? A. Yes.

Q. What becomes of that something? A. That something goes back.

Q. Where? A. To the member credit union.

Q. On what basis? A. The members come together at the annual convention and they know what to do with it.

Q. They decide? A. Yes.

Q. As a rule there must be some general principle? A. We have it here somewhere for last year. I cannot tell from memory. It is on page five, at the bottom of the page.

Q. I was talking particularly about the earnings -- we will call them that for want of a better name -- from mortgage loans and investments. It is all merged with the general earnings? A. General and promotional are different things. We keep the departments separate.

Q. If you have a surplus in each of them, it is all added together and you dispose of each separately?

A. Yes.

Q. Under which of these headings do earnings from these mortgage loans belong? A. Deposit and loan.

Q. It is included in that? A. Yes.

Q. Whatever earnings or income or profits arise from that kind of business, they are disposed of as set out on page five (111) of the brief? A. Yes.

Q. Five per cent is placed in the educational fund and spent from time to time as occasion requires; 3 per cent is paid on surplus funds accepted from members for deposit; 2 per cent is paid on guaranty funds accepted from members, that is, funds you hold until liquidation takes place? A. Yes.

Q. Is that actually paid to those who put it up, or is it credited to them? A. In practice it is. We have a pass book. The credit union has a pass book and we credit it and send it to him and if he wants to withdraw it that is his business.

Q. Some withdraw it and others let it accumulate according to individual taste? A. Yes.

Q. And the balance is carried into the reserve fund. What ultimately becomes of that? A. Next year when the convention meets they can send it back to themselves.

Q. They may hold it for a year or two? A. Yes, but probably a year will come when we may be in the red.

Q. So much for the statement. There are one or two general questions I want to ask you. First, with regard to the question of insurance -- I do not know whether it is in the brief. You have your loans insured? A. The loans?

Q. The loans you make. A. To members of the credit union?

Q. The loans your union makes back to its members; are they insured? A. That is, when the credit union borrows money from us?

Q. Yes. A. In that case, no. We can only give so much, about 25 per cent.

Q. When the individual union loans a couple of hundred dollars to a member who is more or less in needy circumstances he may not be able to pay it all back. Are such loans insured? A. Maybe.

Q. Are they? A. Not always.

Q. Are they in some cases? A. In many cases.

Q. Who pays the premium for that insurance?

A. It comes out of the earnings of the credit union.

Q. Each individual union? Does each union look after its own insurance or does the League look after it all for them? A. I am trying to explain.

Q. Who pays the premium -- the individual union or the League? A. The individual credit union.

Q. Any further explanation? A. I wanted to be sure you had that clear.

Q. In addition to those loans that are insured, is there a species of life insurance? A. Yes.

Q. Tell us how that works. A. The credit union does not carry any loans -- the credit union itself. That is why I am not answering you just as you ask the questions, because it is involved. The credit union does not sell life insurance; Cuna does.

Q. I do not care who sells it. Who pays the premium? A. The credit union itself pays on share loan.

Q. Who pays the premium? Does the individual credit union? A. Pardon me. It is involved again, because there are different types of insurance. Suppose you are a member of my credit union and you borrow \$200. If you want to have that insured --

Q. Not if I want it insured. If I am a borrower, I don't care if it is insured or not; it is the man who loans it. A. If all members of a credit union --

Q. Take this one. A. That is the one I am talking about. You as an individual could not get that insured, but if all members of the credit union want to have Cuna insurance for their share, then the credit union does that.

Q. You could have answered that in three words if you had listened to the question. A. I am not a lawyer.

Q. That is very obvious. I merely asked you to tell me who paid the premium, and it only took a few words.

A. There is another type of insurance that Cuna sells -- there are four or five or six different types.

Q. I admit that would be involved; but in any case where an ordinary individual borrower gets a couple of hundred dollars, if the repayment of that loan is insured it is the credit union that pays the premium? A. Yes.

Q. In addition to that, is there a species of life insurance that the members have? A. Yes.

Q. Who pays the premium on that? A. The individual.

Q. It does not come out of the union funds in any shape or form? The union merely acts as a sort of agent to get it for him through its connection with Cuna? A. Yes.

Q. In your business in connection with printing, supplies and all that sort of thing, does that department have a surplus? A. We are trying to give service to the people.

Q. Did I ask you about service. I merely asked you if you have a surplus left over. Can't you answer yes or no? A. I beg your pardon; it was in the brief. One year there was a deficit and another year a surplus of \$114.

Q. What becomes of that little balance? A. Again, it is decided by the members in convention.

Q. The members get the benefit of it? A. If they decide to pay it all back to the members they get it.

Q. When you were preparing this brief -- I take it you prepared it in the main? A. No. I made my own contribution.

Q. Whose composition is this? A. It is the composition of myself, the Managing Director, the Assistant Managing Director, our Solicitor and any others who were indirectly connected with it.

Q. Whether you actually dictated it I do not care, but you wrote it and it expresses your personal views? A. Yes.

Q. When you were getting ready to come to this hearing did you go into the question of taxation pretty carefully? A. No; I cannot say I did.

Q. When you were getting ready to come here did you not realize that this was a so-called Royal Commission on Cooperatives? A. Yes.

Q. Why did you not come prepared to discuss this movement in relation to the question of taxation? What else did you come for but for that? A. That is true enough.

Q. Well, answer that. Why did you not?

MR. FRANCIS: The brief speaks for itself. On page six it deals with taxation.

MR. PARKER: The witness said he never considered it.

THE WITNESS: I never said I didn't. I said I did not go into it intimately.

BY MR. PARKER:

Q. Did you go into it at all? A. I certainly did.

Q. And did you come to conclusions on the matter which you felt were sufficiently definite to place before the Commission? A. Yes.

Q. What are they? A. That the Credit Union League and the credit unions are only acting as trustees for members' money and any tax that should be paid should be paid where it is properly payable, and that is by the individual member of the credit union.

Q. You have read Section 4 (p) which you have heard talked about, or do you know what it is?

MR. FRANCIS: That has nothing to do with credit unions.

BY MR. PARKER:

Q. Well, Section 4 (q)? A. Not intimately.

Q. You did not examine it for the purpose of preparing yourself for this discussion? A. I did not examine it.

Q. If you did not, that is all you have to say. Are you then in a position to answer this question, and it is my last. Do you think that credit unions or the Credit Union League or both are entitled to any special favours from the Government by way of exemption from taxation if upon a true investigation of their business it should be held that they are making a profit, or do you think that the service they render the community is such a valuable contribution to the public good that they should have special exemption in any event? A. I am not speaking --

Q. Give me your own views if you have not consulted the others. A. I would say that if this Royal Commission determined, and the Government concurred in their recommendation, that there is a profit that should be taxed, then we are subject to the law and there is nothing we can do about it.

Q. But would you think in that event that it would be fair? A. I would not say it would be fair if we are only trustees; still, if they do that, there is nothing we can do about it.

BY MR. ARNASON:

Q. On page six and on the top of page seven you deal specifically with taxation and your reference to taxation concerns itself with the 7 per cent tax on dividends?

A. Yes.

Q. You also refer to the difficulties which would be involved in collecting such a tax if it were imposed. I take it -- I want you to correct me if I am wrong -- that your objection to the 7 per cent on share dividends is due to the similarity between shares and deposits in the credit union. Is that so? A. That is really a misnomer so far as the credit union is concerned, because it is not a share according to the accepted definition of the term share.

Q. I take it -- A. It is not a share at all.

Q. I take it that the reason for this recommendation is due to the nature of the fund rather than to the mechanical difficulty which would be involved in collecting the tax if it were collected at the source? A. Yes.

Q. One other question. Do you know whether in practice it is usual for directors to require the member to give notice when he withdraws shares from the local credit union? A. It has never come under my observation. I have

never had that experience because any time they came they got their money. Is that what you want to know?

Q. I take it from your own knowledge -- and from evidence that has been placed before this Commission indicating that such is the practice in other provinces -- that there is no difference in practice in so far as withdrawals of shares and deposits are concerned? A. No; there is no difference.

BY MR. PARKER:

Q. There is one question I omitted. On page one of the brief you say that during the year 1944 you loaned \$1,321,283.32 and on page seven you say that "approximately 32,000 persons are now banded together in 213 credit unions in Nova Scotia." Of the 32,000, how many roughly have been borrowers? A. I could not answer that.

Q. Approximately -- 25 per cent of the total, or 50 per cent, or 75 per cent? A. I have no statistics on that.

Q. That would require examination? A. Of every credit union.

Q. I thought you would have a general idea. A. The only way to answer that would be to mention the credit unions I have belonged to myself, and in that case most of them would be borrowers at one time or another, at any particular time forty or fifty.

Q. In the course of three or four years almost everyone would be a borrower once? A. I have met one or two that did not borrow, but that is about all.

Q. You do not refuse anyone because he happens to have a surplus and wants to put it in your union? A. Some credit unions have done that, but not all of them.

BY MR. VAUGHAN:

Q. Are depositors permitted to draw cheques against their accounts? A. In the League?

Q. No, against their own personal accounts.

A. No; there is no checking account.

Q. Is it all cash? A. The credit union issues cheques for all accounts.

Q. But the individual member -- can he issue cheques?

A. No.

BY MR. NADEAU:

Q. You have no clearing office for your locals?

A. We have no regional federation as in the case of Caisse Populaire. You have cheques.

Q. Have you got the figures showing your total investments compared to your total loans to new members? I am speaking of your locals. A. The Assistant Manager might answer that. There is \$2,000,000 in the total capital of the credit unions in the province today, roughly speaking. The amount of investments in the League counting the guaranty fund would be only \$400,000. The local credit unions can make their own investments, but the Registrar of joint stock companies advised that any investments such as Victory Bonds should be made through the League.

Q. What I wish to know is whether your local credit unions invest more than they loan to their members?

A. I would say they loan more to their members.

Q. Have you the figures? A. No.

Q. Is it possible to have the figures? A. It would be very difficult, but we might be able to get them.

Q. Besides that, do your local credit unions finance cooperatives? Do they make loans to cooperatives?

A. According to my little story that I gave, they do and they don't. The credit union is to look after the credit needs of the people and if you are a member of a co-operative and you go to the credit union --

Q. I do not mean that, but suppose a cooperative is in need of money. Can it get money from the credit union?

A. In certain cases, on a mortgage basis.

Q. Would it have to become a member before getting money from the credit union? A. Yes. As a rule they become members.

BY MR. ARNASON:

Q. Your legislation provides for membership on the part of cooperatives? A. Yes.

MR. PARKER: I think the Commission would like to have the comparative figures as between the aggregate of all loans to members of all unions and the aggregate investments of all unions. I would suggest that this information be obtained and sent in.

The Commission thereupon adjourned to meet on Wednesday, March 7, at 9.30 a. m.

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Halifax,
Wednesday,
March 7, 1945.

The Commission met at 9.30 a.m., Mr. Justice McDougall presiding.

Brief Submitted by the Halifax Board of Trade

MR. PARKER: Mr. Chairman and gentlemen, I propose to take up first the brief of the Halifax Board of Trade. The files show that there is an original submission which was supplemented by a statement sent in later. This brief is being presented by Mr. Donald McInnes, K.C., on behalf of the Board of Trade and I understand it is his wish to read it in part and to speak to it in part. Unless there are interests present who desire to have it read in full, I presume that will be satisfactory to the Commission.

THE CHAIRMAN: Quite.

MR. DONALD McINNES: It is with some hesitancy that I speak this morning because I realize, Mr. Chairman, that you have been across the country from one end to the other and have heard the words "cooperative association" so often -- you have heard them no doubt ad nauseam -- that you must long to hear something else. Furthermore I recognize that most of the arguments have already been presented and many of them very ably. I would not want the Commission to think that the people of this province are necessarily all of one persuasion so far as cooperatives are concerned, because in the past two or three days we have heard some capable and forceful arguments that might tend to create that impression. I do not agree, and the members of the Board of Trade do not agree, with the position that has been taken. I do not wish to deal extensively with matters that have been fully covered; nevertheless the Halifax Board of Trade regard it as perhaps their duty and obligation to present their views as a body

of businessmen. With your permission, my Lord, I should like to read portions of the brief and other parts that have been covered I will not read now but will leave with you for your consideration.

The brief reads:

"General Statement

"This memorandum is submitted on behalf of the Halifax Board of Trade. As this body is composed of business men and firms carrying on business in Halifax, and as it represents a wide variety of business and commercial activities, these submissions are not made with a view to representing any particular group or character of undertaking. It is the intention and purpose of the memorandum to submit for the benefit of this Commission such matters in relation to cooperatives and bodies of like character as may be said to particularly relate to Nova Scotia; and from this point of view, it is earnestly hoped that some material benefit and information may be given to the Commission. It is recognized also that hearings have been held in a number of Canadian cities and in consequence, most of the matters in respect of cooperatives have already been ably dealt with and from every point of view.

"This memorandum is not an attack on the cooperative form of organization. It is readily conceded that such organizations have played and will play a significant part in bettering the lot of certain classes of the people of this province. However, the Halifax Board of Trade firmly takes the position that cooperative organizations engaged in business activities which are in competition with individuals and firms subject to payment of income and excess profits taxes should also pay such taxes and on the same basis as nearly as possible with such individuals and firms.

"Founding and General Development of Co-operatives in Nova Scotia"

"In so far as the province of Nova Scotia is concerned, apart from Mutual Insurance Companies, Cooperative companies came into being in the year 1906. Although upwards of a century has elapsed since the Rochdale Movement in England, the first cooperative in Nova Scotia was the British Canadian Co-operative Society Limited which commenced business in 1906. This undertaking has met with success and its activities are confined in the main to the Island of Cape Breton. By expansion it has now nine stores, in which there are sales, in recent years of upwards of \$1,500,000 annually. This cooperative has about 4000 members. Passing comment is made to this particular society, as it is the largest in this group. The total number of members of all cooperative stores is about 13,000."

The figures are from Mr. MacSween's report, already put in, and there is no object in elaborating upon them. There have been cooperatives carrying on business in various ways in Nova Scotia, including fishing, agriculture and the business of banking, if that is a correct designation. We have credit unions and first insurance companies. We have five mutuals and I shall have a word to say about them later. Continuing:

"Other cooperatives engage in the fishing industry, agriculture, and in businesses of banking (Credit Unions) and fire insurance (Mutual Companies). Some indication of the growth of cooperatives is found in the statements in the Glace Bay Gazette of Tuesday, 18 July, 1944, featuring the Centenary of the Movement, which first commenced in 1844."

I do not propose to read this newspaper quotation but

I commend it to the consideration of the Commission. It shows that the cooperative movement began in 1906 and today there are 46 cooperative stores in Cape Breton. I saw a map there and I presume it indicates the locations of these cooperatives. At any rate, cooperatives are well established in Cape Breton, and I propose to make the statement that the growth of cooperatives have tended to bring about a reduction in the number of private stores, small country stores in these communities. I hesitate to make such a statement because I have not the figures to support it, but where cooperatives have appeared in any number the tendency has been to put private industry out of business. If I am wrong and my learned friend objects I will withdraw the statement.

MR. PARKER: Although this is not a court of law in the ordinary sense, yet statements of fact put before the Commission ought to be such as can be relied on. We ought to have absolute facts rather than mere rumor or speculation. If my learned friend wishes to make that as a statement of his own personal knowledge it will be accepted on that basis.

MR. McINNES: I do not think any damage has been done. The quotation is from the Glace Bay Gazette.

MR. PARKER: My learned friend quotes from the Glace Bay Gazette. I do not know whether you gentlemen are familiar with this type of publication. It is a newspaper published in the mining town of Glace Bay and if my learned friend is putting it forward as something he is prepared to vouch for we should have some detailed information about that wholesale cooperative.

MR. McINNES: I can tender the edition of the Glace Bay Gazette.

MR. PARKER: I am not questioning the fact that it

appeared in the Glace Bay Gazette; I am probing to test the facts, to see whether the statements made are correct.

MR. McINNES: Continuing:

"Not only have cooperative groups entered into business activities, but they have established educational facilities, and have taken other steps with a view to expanding their scope. It is anticipated that with government assistance and other benefits, cooperatives will continue to advance and enlarge their constituency, which has been on the increase for a number of years. Undoubtedly the growth of cooperatives has resulted in a reduction in the number of individual enterprises, and has discouraged expansion of established businesses. An instance of a disappearance of a private enterprise is furnished by the following news item which appeared in the Halifax Herald under date of January 26th, 1945, and under the heading "Co-op. Buys Dairy Plant":-"

If there is any objection to this I will not read it.

MR. PARKER: My learned friend must not misunderstand me. I am not objecting to anything; I am merely calling attention to the fact that its value depends on the degree to which the facts alleged are established.

THE CHAIRMAN: Obviously. If they are not established they are of no avail. That is perfectly obvious.

Mr. McINNES: I will not read it if there is objection to it. It is, I admit, to the effect that the cooperatives have bought another plant, and the purpose is to show that there is a continuous growth of cooperatives. From that point of view it may be said to be of significance.

MR. ARNASON: I was interested in the sentence at the top of page four: "Undoubtedly the growth of cooperatives has resulted in a reduction in the number of individual

enterprises and has discouraged expansion of established businesses." Have you anything to show that the total number of individual enterprises in the province has decreased?

MR. McINNES: I endeavoured to get information along that line and I did not know where I could find a broad statement. Possibly the Dominion Bureau of Statistics would have that information but I could not get it accurately in the time at my disposal. I go on to the bottom page four. I have endeavoured to gather together some statutes in force in the province and they may be of assistance to the Commission. The most important one is the Cooperative Associations Act, referred to on page five. Continuing:
"Legislation Governing Co-operatives"

"The following Statutes govern the incorporation and activities of cooperative societies and businesses organized on a cooperative basis in Nova Scotia.

"(1) The Co-operative Associations Act Chapter 7 of the Statutes of 1935 as amended by Chapter 40 of the Statutes of 1942.

"This Act is the principal Statute governing the incorporation and activities of cooperative societies in Nova Scotia. It provides among other things:-

"(a) Any Co-operative Association may be incorporated under the Nova Scotia Companies Act and the Co-operative Associations Act applies thereto if its objects are solely those set out in section 4 (1) which is as follows:

'(1) To buy, sell, barter, take on consignment, pack, process, manufacture, dry, preserve, can, grade, store, harvest, handle, utilize or deal in livestock and livestock produce, eggs, poultry, seeds, feeds,

fertilizer and all kinds of farm and forest products, fish and all products of the sea, and all manner of merchandise or supplies necessary for producing, packing, processing, manufacturing, marketing or transporting such goods and merchandise.

"(2) To buy, sell, lease, erect, improve, manage or operate stores, warehouses, wharves, canneries, plants, storehouses and other buildings and structures incidental or conducive to the purposes of the association, and to carry on the business of processors, manufacturers, storekeepers or warehousemen in connection therewith.

"(3) To secure the best market for the sale of property of its members and to arrange for the transportation of such property.

"(4) To become a member or shareholder by original subscription or otherwise, or a director or managing director or other officer of any other company which is or may be incorporated under The Nova Scotia Companies Act and which provides in its memorandum of Association that each of its members or shareholders must be an association under The Nova Scotia Companies Act and one to which this Act applies.

"(5) To do all such other things as are incidental or conducive to the attainment of the above objects."

"(b) The Governor-in-Council may appoint an Inspector of Inspector of Co-operative Associations.

"(c) Co-operative Associations must set up reserve funds, submit to the Inspector after each annual meeting a general statement, showing receipts and disbursements, and assets and liabilities.

"(2) The Credit Unions Societies Act Chapter 11 of the Statutes of 1932 as amended by Chapter 46-1935;

Chapter 44-1938; Chapter 52-1939; Chapter 42-1940.'

"This is the governing Act with respect to formation of and operation of Credit Unions and provides among other things:-

"(a) Credit Unions may be incorporated for the following objects and purposes.

'(1) To receive the savings of its members either as payment on shares or as deposits.

'(2) To make loans to members exclusively for provident or productive purposes.

'(3) To make loans to a cooperative society or other organization having membership in the credit union.

'(4) To deposit in chartered banks in Canada and, to any extent which shall not exceed twenty-five per cent, of its capital, invest in the paid up shares of building and loan associations and of other credit unions and in the deposit receipts of the Nova Scotia Credit Union League.

'(5) To invest in any legal investments authorized by law for trust funds in the Province of Nova Scotia.

'(6) To borrow money as hereinafter indicated.

'(7) To draw, make, accept, endorse, discount, execute and issue promissory notes, bills of exchange, bills of lading, warrants, and other negotiable or transferable instruments.

'(8) To do all such other acts and things as are incidental or conducive to or consequential upon the attainment of the above objects.'

"(b) Any seven or more residents of Nova Scotia may form a Credit Union.

"(c) The Governor-in-Council may appoint an Inspector of Credit Unions.

- "(d) Credit Unions may hold land to a value not exceeding \$5000.00.
- "(e) Duties of officers, supervisory committee etc. are set out as well as the powers of the Union to lend to its members, pay dividends and enter into contracts, etc.
- "(f) Section 47 of this Act provides that "The personal property of a credit union shall be exempted from taxation for local and municipal purposes."
- "(3) The Farmers Co-operative Societies Act Chapter 69 RSNS 1923 as amended by Chapter 25-1930 and Chapter 26-1933.'

"This Act is not now of great importance since Section 3 (1) of the Co-operative Association Act provides as follows:

'This Act shall apply to all societies to which Chapter 69, Revised Statutes, 1923, "Of the Incorporation of Farmers' Co-operative Societies" applies at the time of the enactment of this Act, and no farmers' cooperative society shall hereafter be incorporated under the Nova Scotia Companies Act and said Chapter 69.'

- "(4) The Fishermens' Co-operative Societies Act Chapter 193-RSNS 1923.'

"This Act is not now of great importance since Section 3 (2) of the Co-operative Association Act provides as follows:

'This Act shall apply to all societies to which Chapter 193, Revised Statutes, 1923, "Of the Incorporation of Fishermen's Co-operative Societies" applies at the time of the enactment of this Act, and

no fishermen's cooperative societies shall hereafter be incorporated under the Nova Scotia Companies Act and said Chapter 193.'

"(5) Fishermens' Bait Associations Act Chapter 189-RSNS 1923.'

"This Act provides for the incorporation of Companies for the purpose of purchasing, building, owning, managing and operating, cold storage refrigerators for the purpose of preserving and trading in bait for fishing purposes and makes provision for directors, and election, etc. It is understood that there are at present in this province no Associations operating under this Act.

"(6) The Fishermens' Federation Act. Chapter 9 of the Statutes of 1927.'

"This Act provides:-

"(a) For the incorporation of "stations" of the Fishermen's Federation of Nova Scotia.

"(b) Among the objects of such stations and the Federation is -

'To cooperate in the matter of purchase of fish, fishing supplies and accessories and in the canning, curing, storage, preservation, selling, marketing and export of fish.'

"(c) The Act further provides for an executive committee of the Federation, etc.

"(d) Section 5 of the Act reads:-

'Each station may acquire and hold real estate not exceeding in value \$5000.00, and may sell, mortgage, lease or otherwise, dispose of the same.

'So much of the said property as is used exclusively for the purpose of the station shall be exempted from

taxation'

"(7) An Act to provide for the formation of Mutual Fire Insurance Companies. Chapter 46 of the Statutes of 1903-04, as amended by Chapter 43-1905; Chapter 45-1907; Chapter 50-1930; Chapter 35-1938.'

"This Act provides for the formation of Mutual Fire Insurance Companies in detail including organization, proceedings relating to general meetings, powers of boards of directors, rules relating to issue of policies of insurance and other matters of a nature applicable to Companies.

"(8) An Act to Incorporate the Nova Scotia Credit Union League.

"Thereby the league is made a body corporate. Its chief function is to receive deposits from Credit Unions and to make loans to such Unions. It may invest any surplus not required for loan purposes.

"Scope of Inquiry

"It is appreciated, however, that the matters sought to be inquired into by this Commission fall within three headings. For immediate reference, the subject matters are, as referred to in the Order in Council,

- '(a) the present position of cooperatives in the matter of the application thereto of the Income War Tax Act and The Excess Profits Tax Act, 1940, and,
- '(b) the organization and business methods and operations of the said cooperatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and
- '(c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with cooperatives.'

"To deal with (a), the Income Tax Act provides by

Section 4, that the incomes therein set out shall not be subject to Income Tax, and include:

'Incomes not liable to tax - The following incomes shall not be liable to taxation hereunder:-

'(a) Mutual Corporations. The income of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof, and of life insurance companies except such amount as is credited to shareholders' account;

'(i) Farmers' Associations. The income of such insurance, mortgage and loan associations operated entirely for the benefit of farmers as are approved by the minister;

'(p) Co-operative companies and associations. The income of farmers', dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like cooperative companies and associations, whether with or without share capital, organized and operated on a cooperative basis, which organizations

'(a) market the products of the members or shareholders of such cooperative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves;

'(b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the

value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

'This exemption shall extend to companies and associations owned or controlled by such cooperative companies and associations and organized for the purpose of financing their operations.

'(q) Banking institutions. The income of any banking institution organized under cooperative provincial legislation which derives its revenues from loans made primarily to members residing within the territorial limits within the province to which the institution is restricted for the carrying on of its business.'

"It appears that Section 4 (p) of the Income Tax Act above quoted and the accompanying tax exemption provisions of the Excess Profits Tax Act when properly construed are applicable only to farmers and other primary producers' cooperatives. If Section 4 (p) has been extended to other than primary producers' cooperatives, such extension must have come from Departmental ruling or practice and, it is contended, by an improper application of the section.'"

I endeavoured to find out from the Halifax division of the Income Tax Department what cooperatives pay tax and what do not, but I was not able to get that information. As a matter of fact, it was refused -- politely but firmly. I understand that you have heard quite often -- the Commission counsel can correct me if I am wrong -- that some do pay income tax and some do not.

MR. PARKER: On this section with which my learned friend is dealing, although I do not suggest that he is in the place of a witness, I do invite him to give the Commission the benefit of his views on the interpretation

of the section, that is, as to the extent to which four (p) is an exemption of those classes of associations other than farmers', dairymen's, livestockmen's, and so on, with particular reference to the words "and other like cooperative companies." Does he interpret that as "like incorporated" or "like businesses?" Does this extend to associations engaged in processing, manufacturing and export trade and all that sort of thing, or is it restricted to primary types such as farmers' associations, dairymen's, and so forth? It has been argued both ways before the Commission -- that it may be restricted to that particular type or carried into the wider commercial field. Perhaps he would express his views on that.

MR. McINNES: I ally myself with those who say that it relates to a particular kind of business, that is, co-operatives whose powers and objects might be regarded as primary in the sense that those engaged in such business are primary producers. In this memorandum I have made no particular distinction, but I would say that I do not think that the interpretation of the Income Tax Act is intended to be very broad. In fact, it is intended to be of limited scope so far as exemptions are concerned. Continuing:

"It may also be noted that under the section quoted;

"(a) There is an obligation, to warrant exemption under the statute, to pay to member the proceeds of sales on the basis of quantity and quality.

"(b) There is an obligation to turn over to members, supplies and equipment, which are purchased at cost, plus provision for expenses and reserves.'

"From the nature of the exemptions, it is not accurately known (and the Income Tax Department has not divulged the information) which societies, if any, in Nova Scotia pay income

tax, and on what basis any cooperatives which may pay tax are assessed. It appears clear, however, that many, if not all, cooperative societies do not pay income tax either on the ground of statutory exemption or administrative practice."

Some of the witnesses yesterday made a statement to that effect.

MR. PARKER: What do you mean by "administrative practice"?

MR. McINNES: They are engaged in very wide activities that are not limited to the particular matters mentioned in section 4, and they have not been taxed, either on the ground that they do not make returns or perhaps because the authorities wink at the situation.

MR. PARKER: "Administrative" does not refer to the Department of National Revenue?

MR. McINNES: That is what I refer to. Now I deal with the matter of mutual fire insurance companies.

"Mutual Fire Insurance Companies"

"Section 4 (g) of the Income Tax Act provides, as included amongst the exemptions:-

'The income of Mutual Corporations not having a capital represented by shares, no part of the income of which enures to the profit of any member thereof and of Life Insurance Companies, except such amount as is credited to shareholders accounts.'

"It is believed that certain Mutual Fire Insurance Companies in Nova Scotia are able to take advantage of this exemption, viz: The Antigonish Farmers Mutual, The Clare Mutual, The Kings Mutual, The Pictou County Farmers Mutual, and Cumberland Farmers Mutual."

These are mutual companies carrying on business in Nova Scotia. Continuing:

"And examination of their financial statements as shown in the Report of the Superintendent of Insurance of the Federal Government for the year 1942 shows the following -

<u>Company</u>	<u>Taxes</u>	<u>Net Gain</u>
Antigonish Farmer's Mutual	33.34	3249.10
Clare Mutual	.35	690.58
Kings Mutual	463.56	17,884.43
Pictou County Farmer's Mutual	71.13	2,128.23
Cumberland Farmer's Mutual	53.82	688.10

"It is pointed out that the foregoing figures are for the year 1942. It is expected that succeeding years would be in similar relationship.

"In all likelihood the taxes referred to are of a municipal nature, and certainly do not refer to income taxes.

"Organization and Business Methods

"Paragraph (b) of the Order in Council calls for an inquiry into the organization and business methods of co-operatives with a view to the application of Income and Profit Tax measures thereto.

"While this Commission may not be directly concerned with the manner of doing business of any individual co-operative as carried on in Nova Scotia it is advisable to take a practical instance. Hereafter set out is a statement of the manager of a company which has a branch store in Cheticamp, Cape Breton Island. The business is engaged also in the buying of fish and fish products.

"The manager says with respect to the cooperative operating in his district:"

You may object to my reading this statement, and I am bound to admit that I have no witnesses to support it. If it is objectionable I will not read it. It relates in a practical way to the effects of competition between cooperatives

and private business in one of the Cape Breton communities.

MR. PARKER: Is this taken from the official report of the shareholders?

MR. McINNES: It is a general statement.

MR. PARKER: Can you tell us under what circumstances the statement was made?

MR. McINNES: It was given at our request. We asked for all information with regard to the effects of competition in a particular community where cooperatives are in operation.

MR. PARKER: But that gentleman is not here to undergo examination and expose himself to a test.

MR. McINNES: If it is objectionable from that point of view I will not read it.

MR. PARKER: I am not objecting to it.

MR. FRANCIS: My learned friend was good enough to give me an advance copy of the brief, and in justice to the people I represent I should register an objection unless a witness is to be called. There are a number of points that need to be examined and I would like to cross-examine the person who makes the statement. I respectfully suggest that it be withdrawn.

MR. McINNES: I will certainly not urge the matter.

THE CHAIRMAN: I do not know that it should be withdrawn. It can stand as a part of the brief that is not established.

MR. FRANCIS: As far as the Commission is concerned, that is satisfactory, because I realize that it is of no avail. But if it stands, the press is entitled to use it and the cooperatives have suffered right across Canada by reason of the fact that the press, in carrying out their duty, publish statements that are not supported by evidence.

THE CHAIRMAN: In a public inquiry people must not be too thin-skinned about what is said.

MR. FRANCIS: It is very difficult for the public to discriminate between what is established fact and what is a mere submission unsupported by evidence, and, I urge once more, the cooperatives have suffered a great deal from that very fact. Here is another case where an attempt is made to put in a statement in the absence of any witness who is prepared to be cross-examined upon it. We cannot ascertain the real facts.

THE CHAIRMAN: Legally you are perfectly right, Mr. Francis. Well, Mr. McInnes, what attitude do you take? Strictly, unless you are prepared to bring evidence to support the statement, it should not be in the brief.

MR. McINNES: Frankly, sir, I have no witnesses to support the statement. That being the case I will withdraw it. I now turn to page 16.

"The scope of the inquiry may also not warrant any detailed examination of the financial structure of various cooperatives carrying on business in Nova Scotia, but for ready reference, statistical information is to be found in the report of the Inspector of Co-operatives for the Province of Nova Scotia, for the year 1943."

That report has been made part of the evidence and I attach it to this memorandum. Continuing:

"Such report is attached as a schedule to this brief. The report indicates that, apart from Mutual Fire Insurance Associations and Credit Unions, several kinds of cooperatives carry on business in this province:-

"(a) British Canadian Co-operatives, which is a consumer cooperative, did a total business of \$1,592,761.90,

in 1943. It reserves, and surplus a sum in excess of \$100,000.00.

"(b) Other cooperatives (consumer) in 1943 did a total business of \$2,533,911.31. The schedule indicates that the reserves of the several societies vary in amount.

"(c) Miscellaneous cooperatives which include dairy-men, farmers, creameries and hatcheries, which in 1943 did a business of \$190,831.69."

The report speaks for itself and it would be only a waste of time if I attempted to analyze it. Some of these cooperatives are carrying on business in a small way while others are creating reserves, and from that point of view they come into competition with private enterprise. Continuing:

"(d) Fishermen's Cooperatives which in 1943 did a business of \$341,572.48.

"The total membership of the groups aforesaid are herewith summarized:

(1943)	British Canadian	3,896
	Co-operative Stores	8,473
	Fishermen	834
	Miscellaneous	<u>800</u>
	Total	14,003

"As Nova Scotia has a population of only 600,000 people, it is to be seen, therefore, that the cooperative societies play an important part in the economic life of this province. The foregoing figures do not include members of Mutual Fire Associations or Credit Unions. The net income, apart from Mutual Fire Associations, was \$237,713.42 or 5.1 per cent of sales and an increase of 32 per cent over 1942. There has been a progressive growth in all financial phases.

"A review of the schedule attached to this memorandum indicates that some cooperatives of various classes are flourishing while others appear to carry on business in a small way. Some of them are without doubt poorly organized and others may elect efficient management or be in communities which are small and where an opportunity for financial growth is not available.

"The societies are organized in accordance with the terms of the Statutes hereinbefore referred to. No useful purpose may be gained therefore in commenting in detail on such method of organization. The schedule attached however contains some very illuminating figures as to the growth of the cooperative movement. For example, the report reveals that the cooperatives did a total volume of business in Nova Scotia in the year 1943 of \$4,659,077.38, an increase of 20 per cent over 1942. It should be noticed also that the report covers only incorporated associations and "does not include a large number of groups such as Fishermen's Federations, shipping clubs and similar organizations which are carrying on a substantial volume of cooperative business".

"The following statement is taken from the Halifax newspapers of 25th Jan. 1945. This report is useful as giving an indication of the general growth of fishermen's cooperatives and the magnitude of their operation.

'Over \$1,441,075 worth of business was handled by the United Maritime Fishermen during 1944 for 70 cooperatives in Nova Scotia and New Brunswick to represent its biggest year since organization in 1930.

'This figure on sales of fish products and fruit to United States, Central Canadian and West Indies markets was a gain of \$603,151 over 1943.

'One of the biggest increases was the sale of fall mackerel and mackerel fillets to the United States which jumped from \$14,213 in 1943 to \$118,792 for the past year.

'However, General Manager, J. H. MacKeigan said yesterday difficulty was now being experienced in shipping mackerel fillets to the United States because of consideration now being given by the Office of Price Administration to freeze importers' prices. Only small quantities of the product have been shipped during recent weeks, he said, while importers and exporters await final decision by the OPA.

'Plans to put a ceiling price on mackerel fillets going into the United States were in line with other fish prices. On the small amount shipped this year, Nova Scotia producers have received a lower figure than they realized during 1943, in the vicinity of \$40 a barrel.

'Aside from this setback, the United Maritime Fishermen had the most successful year on record. One notable achievement was the sale of two new commodities-gaspereaux, put up at the co-op enterprises at Margaree and Cheticamp, and blueberries, at the Tor Bay Canning Company, Larry's River, Guysboro County. Over \$18,000 was realized by these two ventures.

'Shipments of live lobsters to the Boston markets, which sales totalled \$433,292 last year, continues with highest prices in many years being paid. Prices now being quoted are 60 cents a pound for select and 52 cents for culls and weaks. Last year importers were paying 40 and 30 cents while in 1943 the figures stood at 28 and 24.'

"Credit Unions

"There has been a substantial growth in the numbers of Credit Unions in this Province, although such unions have been in existence a comparatively few years.

"The following is the consolidated report of Credit Unions for the fiscal year ended the 30th of September, 1943.

Credit Union Societies Operating	204
Total Membership	28,850
Total Share Capital	\$ 1,317,744.13
Total Deposits	\$ 38,983.82
Total Amount Loaned During the Year	\$ 1,065,812.43
Total Net Assets	\$ 1,469,280.53
Total Guaranty Fund	\$ 53,900.28 "

The method of operation has probably been explained to you. It is supposed to be for small borrowers, but the fact is, as the statement indicates, that credit unions are undergoing a continuous growth and are tax-exempt, and for that reason they create competition. Continuing:

"The Statute under which Credit Unions are organized has already been dealt with. A member may join at a nominal fee and borrow up to \$50.00 without security, and with endorsers, a larger amount. Interest is usually charged at the rate of 1 per cent a month, which is a substantial percentage per annum. Dividends paid shareholders of such unions as are well established is usually at the rate of 3 per cent, but any benefits that are derived are intended to be used for the advantage of a borrower and thereby lessen his interest burden. The Credit Unions have grown to a marked degree, for example in the town of New Waterford, the Credit Union doing business there owns its own building and has a manager and two tellers.

"As Credit Unions are not subject to income tax and there is created a situation of profit, it is submitted that there is no reason why any benefits that are derived from these ventures should not be made subject to income tax."

MR. PARKER: What do you mean by the paragraph at the bottom of page twenty beginning: "As credit unions are not subject?"

MR. McINNES: I mean they make money which is in the nature of a profit, from the very manner in which they do business. They loan money at one rate and borrow at another and that creates a situation of profit.

MR. PARKER: Is it profit belonging to the credit union or to the members of the credit union?

MR. McINNES: It belongs to the body corporate. Continuing:

"Comparative Position in Respect of Taxation"

"Paragraph (c) of the Order in Council relates to the comparative position in respect of taxation under the Income Tax Act and Excess Profits Tax Act of persons engaged in any business in direct competition with cooperatives.

"In Nova Scotia there are not, as in the Western Provinces and other parts of Canada, any concerns as large in financial structure or in business activity as the wheat pools and grain elevators and similar large undertakings.

"In brief, the comparative position is that private business pays income tax, in accordance with the terms of the Statute, whereas certain of the cooperatives do not. It is not the purpose of this memorandum to endeavour to analyze balance sheets (which are not readily available) but it is thought fair to say that any profit before

deduction of allowance by way of patronage dividend, in consumer cooperatives and by way of addition to purchase price in producer cooperatives, should be taxed."

That may be said to be a matter of argument. Continuing:

"With a view to making specific recommendation, the Halifax Board of Trade considers that the same consideration should be given cooperative societies in regard to income taxation in Canada as in Great Britain. This Commission will have had the opportunity of fully considering the report of the Royal Commission in Great Britain which was established in 1919. Twenty-three Commissioners were originally appointed and the personnel consisted of a group of men who represented many fields of activity. As a result of the recommendations of the Royal Commission, the Finance Act was amended in the year 1933, which gave effect to the commission's findings. In a memorandum of this nature it is not expedient to attempt to review the terms of such report at length, or the amendments to the Finance Act. In England, and no doubt also in Canada, cooperative societies, in general, take the position that the nature of their transactions do not give rise to a profit as there exists a "mutual trading", and that no liability to income tax is thereby created which arises out of any surplus realized in the business. It has been said in respect of mutual trading there must be two parties to a transaction; and that as in the case of cooperatives, the members deal with themselves there is no trading which would give rise to any taxation."

That has been argued many times no doubt. Continuing:

"By way of contrary argument, it is submitted that cooperative societies are independent legal entities, and

as such are the owners of their undertakings and assets; as between a member and the cooperative there is a sale and purchase of goods between two parties. A purchase or sale is made by the society from or to the member and a position of profit arises which should give rise to taxation."

There is an opposition between the party dealing with the body corporate and the body corporate dealing with other parties. The very act under which they are incorporated shows that they are separate entities. Continuing:

"The following excerpt from evidence submitted by the Income Taxpayer's Associations of Great Britain to the Committee appointed in 1932 to inquire into the position of Co-operative Societies in relation to income tax affectively deals with the "mutual trading" argument of the cooperatives:-

'The basic idea of the view that "mutual" trading, or at any rate some forms of "mutual" trading, cannot give rise to a taxable profit is that a man cannot make a profit out of himself. The owner of an article cannot make a taxable profit by selling it to himself at a higher price than he paid for it. Again, approaching somewhat more closely to the position of a cooperative society, if a number of persons combine to purchase in bulk an article which they all require, each contributing to a common fund for the purpose, and the article is found to cost less than had been anticipated and the excess contributions are returned pro rata to the contributors, a contributor cannot be said to have received a taxable profit in the form of the excess of his contribution over the actual cost of his share of the article bought.

'Co-operative Societies may have originated in

associations approximating to a simple combination of this type, but the position of societies today is in our view essentially different. A society which is registered under the Industrial and Provident Societies Act is an incorporated body, and it is clear from judgments of the Courts, since the Royal Commission reported in 1920, that an incorporated body is a legal entity apart from its members. The existence of this entity seems to us to be a matter which cannot be ignored in considering whether there is true mutuality of trading or not. If any real "Mutality" existed we should expect to find a situation in which the contributor (in this case the member qua purchaser) retained as contributor an individual interest in his excess contributions. We do not find that. A contributor cannot point to any part of the undistributed surplus on trade with members as representing his contribution, and claim a right to dispose of that part of the surplus...

'We are unable to see any reasonable ground for holding that the undistributed surplus derived from the trading of a society with its members should be exempted from income tax by reference to the nature of the source from which it arises. We agree with the view of the Royal Commission on the income tax in paragraph 556 of their report that a true trading profit does result from the trading of the societies both with members and with non-members.'

"The Royal Commission of 1919 recommended in their report that:-

'We recommend in effect that a Society (that is a Co-operative) should be treated exactly as a limited

liability company, trading in similar circumstances and under similar conditions."

Such a finding, I respectfully submit, might be one for the consideration of this Commission. Continuing:

"The Finance Act was as a consequence amended in 1933 and mutual concerns and cooperatives of every kind doing business in England lost the exemption from income tax which they had previously enjoyed and since that time they have been taxed in the same manner as limited liability companies doing business in similar circumstances and under similar conditions. They also pay excess profits taxes."

MR. ARNASON: In connection with your reference to the method of taxing cooperative which now exists in Great Britain, is it your view that what I take to be your recommendation at the bottom of page 21 is in accordance with the policy now being followed there?

MR. McINNES: I will not attempt to answer your question, sir. I have redrawn some recommendations. Whether they are helpful or not, in the light of what I have read and learned since this was prepared, remains to be seen. I should like to leave your question for the moment and come back to it. Continuing:

"General Summary

"It is submitted:-

"(a) Cooperative societies in Nova Scotia as well as elsewhere are not now properly mutual concerns. They have so expanded their activities that they have become a form of organization far beyond the thoughts of the original sponsors."

I am dealing only with Nova Scotia, but I believe it is so elsewhere in Canada. Continuing:

"Indeed in this province, at least, the original incorporators probably did not have taxation in mind. Their primary purpose would be to save for themselves the retailers profit and as the societies grow, the wholesaler's profit."

Perhaps it will be argued that elsewhere cooperatives have been formed having taxation in mind. I do not think that in Nova Scotia their formation had regard to taxation, but I am making the argument that elsewhere they have commenced with taxation in mind. Continuing:

"(b) When the exemptions provided in Section 4 of the Income Tax were first made, the growth and scope of co-operative societies was not contemplated or anticipated. It appears to have been the intention of parliament to limit tax exemptions to small groups dealing in the primary industries. By administrative practice the exemptions have been extended and corrective legislation should be enacted.

"(c) The needs of taxation were far different from the taxation problems of the present time, from a revenue point of view.

"(d) The needs of the country require that the exemption should be discontinued.

"(e) If similar exemptions were requested today, no one would make representations to parliament with the expectation that their requests for exemption would be granted.

"(f) The exemptions granted by the Income Tax Act operate in the nature of a subsidy to the detriment of private business.

"(g) There is discrimination and inequality."

I have specific recommendations but I was going to deal with those later. Continuing:

"Specific Recommendations

- "1. That the Income War Tax Act and Excess Profits Tax Act should be amended so that a Co-operative Society be treated exactly as a limited liability company trading in similar circumstances and under similar conditions.
- "2. That it is recognized that a different situation exists in England from that in Canada in respect of the taxation of cooperatives as in England there is a single tax and in Canada both corporations and shareholders pay income taxes. It is recommended that cooperative organizations be taxed on the basis of earnings, before deduction of any allocated amount for patronage dividends or additions to purchase price.
- "3. That the Excess Profits Tax be amended to the extent that cooperative organizations pay Excess Profits Tax in the same manner as private enterprises doing business of the same nature and kind.

"All of which is respectfully submitted.

Halifax Board of Trade
By its Counsel
Donald McInnes, K.C.,
and A. G. Cooper."

May it please you, my Lord and gentlemen, I have filed a supplemental brief. So far as the Halifax Board of Trade is concerned, we are interested in the general economic welfare of the province of Nova Scotia and I have endeavoured to take a specific example of what might be said to be the effects of cooperative organization in one particular industry. I refer in part at least to the situation in the Annapolis valley where there is a very large fruit belt. The livelihood of three or four counties depends upon the growth of apples, and while this is not

the only source of income it is certainly the largest one. In this regard I wish to say:

"The Halifax Board of Trade desires to submit a supplemental memorandum to that previously filed by it. This supplemental memorandum is concerned with the Annapolis Valley apple industry. In the Annapolis Valley apple growing is the main industry and the life of this part of the province is bound up with the growing and marketing of apples. The annual crop in some years exceed 2,000,000 barrels. The submissions made herein may be regarded as important for the purpose of the commission for the following reasons, among others:-

"(a) a practical illustration of the effects of the co-operatives form of organization in a territory of one crop or industry.

"(b) as dealing with the organization and business methods of cooperatives in Nova Scotia where the business dealings of a cooperative affect a whole industry and the life of an important section of the province.

"(c) the advantage which is gained by a cooperative in being able to build up large surpluses as a consequence of not being subject to taxation.

"(d) the advantage which a cooperative may gain over its taxed competitors -- with the result that private competitors cannot meet the cooperative prices and in time may be financially doomed.

"(e) the tendency of the foregoing is that the cooperative may take over the whole industry.

Effect of the Co-operative Tax Situation on the Annapolis Valley Fruit Industry - General Background.

"The growing of apples in the Annapolis valley reached a commercial scale about the year 1880. All apples were

grown and marketed through private enterprise until about 1908 when a few growers became interested in pooling their apples mainly for marketing purposes. As a result of this interest a few small cooperative shipping companies came into being.

"In 1912 a majority of these smaller companies became members of a central cooperative which was incorporated by a special act of legislature in that year. (Chap. 22 of the Acts of 1912 Incorporation, Farmers Fruit Produce and Warehouse Associations.) This central cooperative has continued to operate until in 1939 its membership was made up of approximately forty of these member units, controlling approximately (theoretically) thirty per cent of the entire valley crop. Through this period, however, entire cooperation from its members was not experienced as in many instances individual members of the member cooperative units availed themselves of the opportunity of accepting offers from independent buyers and when they considered they would get higher returns in so doing. Neither did these members in all cases avail themselves of the services offered by their cooperative if by dealing with private operators they could do better. By and large these exceptions were quite the rule in the late twenties and early thirties and the central cooperative was subject to considerable criticism by the members of the member units. In 1939 the general situation was as follows:

Percentage of crop grown by members of	
central cooperative	30
Percentage of crop grown by private enter-	
prise	<u>70</u>
	100 per cent

"At the outbreak of war the market for apples which was mainly in the United Kingdom was lost and the industry

appeared doomed. However, the Federal Government came forward with assistance. The Nova Scotia Apple Marketing Board Limited came into existence as the central Marketing Agency and today all apples must pass through this agency, including those of cooperatives. The apples of cooperative members are pooled with those of independents and at the end of the season an average determined and distributed to all sub-agents who in turn distribute to the grower. Under this arrangement the apples of a grower lose their identity and are marketed either on the fresh fruit market or through the processing plants in a pool operation.

"The Directorate of the Nova Scotia Apple Marketing Board Limited has been made up of men prominent in the fruit growing industry. At the outset some of these were also directors of the Central Co-operative, while some were independent processors and growers. A few months ago the central cooperative members of the Directorate and the Independent grower members practically without exception were enthusiastic over the possibilities of a continuation of centralized marketing and ultimate control of the entire industry. It is indicated that there may be a joining of forces in a programme to rejuvenate the valley's Central Co-operative. The scope of the co-operative has been widened by the enactment of Chapter 80 of the Acts of 1944 entitled "An Act respecting the United Fruit Companies of Nova Scotia Limited." The newly constituted Central Co-operative controls approximately 50 per cent of the entire valley crop and is seeking legislation through its members for compulsory centralized marketing for the post-war period.

"Before this reorganization the central cooperative owned outright two processing plants and held a large interest

in a third. These plants operated in direct competition to those of private operators. For a period of years it was the custom for these plants to take apples for any grower at unstated prices, process them and then pay the grower a price as determined by their Board of Directors, such price seldom if ever being worked out to an exact figure but generally being in even figures indicating a profit for the processing. Subsequently, however, this procedure was evidently found unsatisfactory and a policy was adopted of paying a fixed price for such apples, such price generally being in line with those being paid by private operators with no dividends or rebates going to growers if and when a profit was realized on processing. Is it not reasonable to assume that here was an opportunity for the central organization to accumulate untaxed profits for the further development of their business and facilities without being obliged to look to their membership for addition capital for such purposes, and thereby increase the competition to private operators?

Present tax concessions to cooperatives result in gross inequalities further in that when you have co-operative organization and private enterprise operating in the same fields the cooperative organization is in the position that if it wishes, force private enterprise down to a point at which a loss on operations is inevitable. The loss to the cooperative not being a loss at all in that it is offset by the fact that the grower has had his processing done cheaper than conditions permit while to the private operator it is a direct loss difficult to make up in succeeding years due to the fact that taxes make it necessary to earn a relatively high profit in order to

have enough after taxes to liquidate previous losses and still have left a reasonable profit for that year's operation.

"Method of Operation of Nova Scotia Apple Marketing Board Ltd.

"1. All apples must be cleared through the Board.

"2. Those apples marketed as follows by the Board:

"(a) Sales made on fresh fruit market direct by board, they in turn instructing a sub-agent to ship from his warehouse supplies. The returns from these shipments being pooled into common pool.

"(b) Delivery to processing plants for processings. The finished product being sold by the board. Flow of apples to plants at direction of board to sub-agents.

"3. The Board arranges through contract with the processors before the operating season commences for the processing of apples. The general procedure being to allow the processor a set fee per lb. of dried apples on all apples processed regardless of whose apples they might be. This fee is ordinarily arrived at through agreement between representatives of processors and the board. The fee established in some cases being low for a marginal processor, satisfactory for the average, and ample for the more efficient.

"In 1943 the general situation as regards processing facilities was as follows:

	Percentage of Total Valley Capacity
Independents	67
Scotian Gold Products Ltd.	10
Union Dehydration Co. Ltd.	5
United Fruit Co's. of N. S. Ltd.	13
Kingston Evaporators Ltd.	5
	<hr/> 100

These processing facilities are all being used under present wartime marketing conditions when the major portion of the crop is being marketed in the processed form. However, when more normal marketing conditions return it is very probable that approximately one-third of the present facilities will be capable of processing all of the apples that will be available for processing.

"Does not the present tax position of cooperatives offer an excellent opportunity to the cooperative to secure sufficient facilities to take care of all processing under normal conditions to the exclusion of independents?

"For instance, concurrent with the reorganization of the central cooperative, membership of one privately operated processing plant was accepted by the central cooperative. This year that processing plant is being operated as a special division of the central cooperative. Let us suppose that possibly this was a particularly efficient operating plant and under the processing agreement with the board they were able to earn their standard profit and possibly a substantial amount in addition, say for arguments sake \$100,000.00.

"Could therefore the present agreement between that company and the central cooperative not now be one of tax convenience that these profits might be salvaged and possibly applied against a purchase agreement thereby affording an opportunity to the cooperative to get sufficient processing facilities to handle all processing requirements in normal times when apparently they hope to control at least the major portion of the valley apples through membership and at the same time avail the present

independent owner an opportunity to keep his standard profit and liquidate his business not otherwise readily saleable at a satisfactory price. Surely a taxation basis which would permit such a situation cannot be justified.

"The tendency of this central cooperative has been to break away from the original idea of cooperation to eliminate the middleman's fee and thereby return to the grower the maximum amount of money from his apples and also supply materials and other services at the lowest possible cost to the member and is now developing, under the present set-up especially, into big business with the hopes of its Directors for dictatorial control over both members and those who prefer to operate independently, utilizing their favourable tax position to attain their end.

"Conclusion.

"As long as a producer cooperative is dealing with its member on a pre-determined basis and distributing its yearly surplus to its member who in turn reports it for income tax purposes as income, no exception can be taken. However, if such surpluses are left within the cooperative undistributed to the individual members and used for the strengthening of the cooperatives position, we contend that great injustice is evident and should be remedied without delay in order that the burden of taxation might be more equitably distributed.

"Reference has been made to the processing of apples as an example of a situation that may be created in the fruit industry whereby cooperatives will gain complete control of one of the branches of the industry.

"The same situation would be applicable also to other branches of the industry for instance in the cultivation

of apples, growers are obliged to buy extensive quantities of fertilizer. If by means of tax exemption cooperatives can buy quantities of fertilizer at cheaper prices than by individuals, control will be gained of this branch of the industry. There follows also the production of barrels and boxes for the pack, transportation of apples by truck and other means and by generally widening the scope of their activities.

"It is appreciated that this Royal Commission concerns tax only with the income tax features but extensive reference has been made to a particular industry and particular branches of it as typical of the whole.

"It is therefore submitted that as a consequence of discriminatory taxation unjust results are brought about and there is an indication that the future of any individual person in any branch of the industry is very much restricted and uncertain.

"Dated at Halifax, N.S.,
13 Feb., 1945.

Halifax Board of Trade,
By its Counsel
Donald McInnes, K.C.,
A. G. Cooper, K.C."

I am sorry I have taken up so much time reading these briefs, Mr. Chairman. There were some gentlemen from the Nova Scotia Board of Fire Underwriters here on the opening day, and they have asked me if I would present on their behalf a short brief which has been prepared from their point of view.

MR. PARKER: We had better dispose of this one first. I have no desire to ask Mr. McInnes any questions, seeing that he has not appeared as a witness, but there are one or two things I would invite him to explain and one is

the nature of the membership of the Halifax Board of Trade, the manner in which the brief which he has read was prepared, and to what extent it has been circulated. How far does it represent the considered views of the Board of Trade? In other words, we want to know whom my learned friend is speaking for so that we may be in a position to judge how large a section of the community actually approved of the views he has expressed today.

MR. McINNES: Lawyers as a rule make very poor witnesses and I am appearing as an advocate rather than as a witness. I do not pretend to have first-hand knowledge of some of the things mentioned in the memorandum, but as my learned friend knows, the Halifax Board of Trade is an incorporated body.

MR. PARKER: I do not care about that, but can my learned friend tell me to how many members of the Board of Trade this memorandum has been submitted?

MR. McINNES: My learned friend's question is not quite fair. I was given general authority to prepare a memorandum on behalf of the Board of Trade and certain parts were submitted to various members. I was authorized generally to make such recommendations as I might think necessary.

THE CHAIRMAN: Was there a meeting of the board authorizing the production of this document?

MR. McINNES: As to the first part, certainly; as to the second, frankly, no. It was produced later in my endeavour to find a particular class of industry in Nova Scotia that would be subject to the competition of co-operatives.

THE CHAIRMAN: What we are interested in is whether the views expressed in this brief are representative of the

opinion held by the Halifax Board of Trade.

MR. McINNES: Answering your question, my Lord, I must say that it has not been widely circulated.

THE CHAIRMAN: And we are not to have the Chairman or the President of the Board of Trade here to say that the document is authorized to be put forward as expressing the views of the board?

MR. McINNES: I had not thought of it from that point of view.

THE CHAIRMAN: Should you not have some support for the brief?

MR. PARKER: With regard to the supplement to the main brief, dealing with the Annapolis valley fruit industry, I understand that the fruit growing industry have intimated that they wish to appear at Ottawa to discuss their business before the Commission, and that is confirmed by their solicitor, Mr. Nowlan. Inasmuch as Mr. Nowlan is here and has declared himself as appearing for that industry, he may at this stage wish to make a further statement.

MR. NOWLAN: The directors are meeting this afternoon to discuss the filing of a brief. I have just had an opportunity of reading the supplementary statement that my learned friend has submitted, and in view of the fact that our own brief has not been prepared I would like to have an opportunity to meet some of the assertions which are contained in this statement. I would like to have permission to file the brief in Ottawa a little later than the 10th of March.

THE CHAIRMAN: Can you suggest a date?

MR. NOWLAN: I would prefer the 20th of March.

THE CHAIRMAN: I think that would be satisfactory.

MR. NOWLAN: Thank you, my Lord. I would like to ask one or two questions.

THE CHAIRMAN: Of Mr. McInnes? He is not a witness, you know.

MR. NOWLAN: My learned friend said he had general authority for the submission, so far as the first brief is concerned. I would like to know what authority he has for the presentation of the supplementary brief. I would be surprised to find the Halifax Board of Trade, as such, sponsoring it.

THE CHAIRMAN: Some official should be brought forward to advise us on that.

MR. NOWLAN: With all due respect to my learned friend -- he is my friend -- who is exceptionally able and is an honourable member of the Bar, I must say that hypothetical questions have been raised and answers given to build a case absolutely out of thin air. We have boards of trade in 12 towns. Did my learned friend consult them?

MR. McINNES: I will relieve you of any anxiety in that regard. The boards of trade in the valley were not consulted.

MR. NOWLAN: I would like to know to what extent the Halifax Board of Trade was consulted. Is someone using the name of the Halifax Board of Trade in order to submit to this Commission a brief which otherwise would not be before it? Is someone hiding behind the Halifax Board of Trade? If so, this Commission should know who it is, and the fruit industry should know.

THE CHAIRMAN: I am prepared to rely on the advice of Counsel for the Commission.

MR. PARKER: My opinion is that the matter is of no great importance to the Commission in any case, and the gentlemen have had their say; but if you feel, Mr. Chairman, that some official from the Board of Trade should be called, someone could be asked to come and explain from what angle the Halifax Board of Trade is making representations with respect to the apple industry. I can see that there are angles from which they might be interested. This has been a large shipping port in days gone by and it will be in days to come and the members of the Halifax Board of Trade would be interested in the matter from that point of view. I was born in the Annapolis valley and I know something about it.

MR. McINNES: The question of the apple industry was taken up at a meeting of the council of the Board of Trade and I was authorized to submit a memorandum in that regard. Mr. Fletcher Smith, one of our council members, happens to be here, and he will say that the memorandum was not submitted to every member of the board or even any particular group.

MR. PARKER: Can you tell us how many saw it?

MR. McINNES: I do not know how many saw it. However, my learned friend Mr. Nowlan will have a substantial period of time in which to prepare his argument. It is a matter of argument and anyone can make an argument.

MR. ARNASON: Referring to the final memorandum, as regards the recommendations respecting legislation, does the same situation apply there or were the recommendations referred to the council?

MR. McINNES: I must say those are largely my own. The position is this. A great many of the members of the

boards of trade are not lawyers and do not pretend to understand the technicalities of the act. They have to rely on the so-called expert. I do not pretend to be an expert on income tax, but they have to rely on what counsel advises them. That is all I have to say about it.

MR. ELLIOTT: On page five of the supplementary brief you say: "The loss to the cooperative not being a loss at all in that it is offset by the fact that the grower has had his processing done cheaper than conditions permit," and so on. Is it your position that a loss to the cooperative is not a loss but a gain, whereas if it makes a gain, it is a gain?

MR. McINNES: That may not be a fair statement of the position. The position is that if it is a cooperative, as such it is not obliged to make a profit from the point of view of having to pay taxes. A private company has to build up reserves to meet ordinary demands of business. They are not subject to the same economic restrictions as private business. They have wider scope and perhaps a loss is not a great concern to them in one year. If they continued to have losses they might fail, but in a particular year a loss might or might not be important. If they have reserves they can take losses for a substantial period whereas a private company can not.

MR. ELLIOTT: Do you know whether any members of the Board of Trade consider themselves to be competitors of credit unions?

MR. McINNES: Of credit unions? I would think not so. I cannot conceive of any.

MR. FRANCIS: I am not quite clear what this recommendation means: "That if there be any doubt whether or not the word income as defined in the Income Tax Act

includes profits of cooperatives and mutual associations, the definition of income should be altered so as specifically to include such profits prior to the determination and payment of any patronage dividends." What I am not clear about is whether the Halifax Board of Trade submits that patronage dividends should be taxed in the hands of the cooperative. I am not entirely clear on that.

MR. McINNES: My own submission is that they should be put in exactly the same position as other companies carrying on business in the same manner and in the same degree, and from that point of view income tax should be imposed before deduction of any patronage dividend.

MR. FRANCIS: May I direct attention to the bottom of page 21 and the top of page 22 of the main brief: "With a view to making specific recommendation, the Halifax Board of Trade considers that the same consideration should be given cooperative societies in regard to income taxation in Canada as in Great Britain." I was wondering if my learned friend would consider this consistent?

MR. McINNES: I recognize that in England there is a single tax whereas in our country there is double taxation, and when I say the same consideration should be given, I mean the same considerations from the taxation point of view. I do not say the methods should be the same as in England because that cannot be, for various reasons.

MR. FRANCIS: I want to be perfectly clear as to whether the Halifax Board of Trade considers that patronage dividends should be taxed in the hands of the association.

MR. McINNES: I would say that is correct.

THE CHAIRMAN: We will accept the brief and regard the case as closed.

MR. PARKER: I think so.

.....

Brief submitted by Certain Independent Operators, Corporate and Individual, of Creameries and Dairies in the Province of Nova Scotia

MR. PARKER: I propose now, Mr. Chairman, that we take up the brief which is to be submitted by Mr. C. B. Smith, K. C. on behalf of certain independent creameries and dairies.

MR. C. B. SMITH: The brief I am about to read is presented on behalf of certain independent operators of creameries and dairies in the province of Nova Scotia. I propose, Mr. Chairman, with your permission to read the brief and make some passing comments as I go along. So far as I know, it contains no statements of fact which are controversial and which will not be agreed to by all in the room today. There are some of my clients here and if any question arises as to how many there are -- if that is a matter with which the Commission is concerned -- or how extensive their businesses are, I shall be prepared to produce witnesses, not that I have any questions to ask but that they be submitted to examination by Counsel for the Commission or by any other interest. The brief reads:

"This Brief is respectfully submitted on behalf of the operators of creameries and dairies in the province of Nova Scotia, whose names are set out below.

"Introductory

"There are in the province of Nova Scotia at present some 22 or 23 operating creameries and dairies, and of these only 2 or 3 at most profess to be cooperatives.

"It follows that the competition of the untaxed

cooperatives with the fully taxed independent operators is not serious at the moment, but the independent operators are very apprehensive that if the presently existing tax exemption of cooperatives and so-called cooperatives is continued it will only be a question of time before the fully taxed operators are forced out of business.

"There are three things that it is intended to make perfectly clear at the outset. These are:

"1. That the operators on behalf of whom this submission is made have no desire to escape their fair share of the taxation necessary to meet the national needs."

My clients are no different from any other taxpayers or prospective taxpayers in Canada. The statement that they have no desire to escape their fair share of national taxation does not mean that they approve of taxation as it is in all its incidence, or that any one of them would wish, with Omar Khayyam, to grasp this sorry scheme of things entire, and remold it nearer to the heart's desire. Not at all; nor is it the function of this Commission to go outside the realm of the submission and consider the whole tax structure.

THE CHAIRMAN: We are not asked to rewrite the tax law.

MR. SMITH: I understand that, my Lord. When I say we have no desire to escape our fair share of taxation I wish to make it clear that we mean our fair share of present taxation. Continuing:

"2. That they have no objection to the tax exemption granted to true cooperatives, whose sole function is to market the product of producer members and account to them for the proceeds less proper expenses of marketing.

"In point of fact in the case of the true cooperative

there is no income to tax.

"3. That whay they do object to is the exemption granted to so-called cooperatives, which are in reality not cooperatives at all, but corporate business organizations with wide ramifications, which in the light of the existing law have been able to so astutely frame their constitutions and by-laws and order their affairs generally as to be within the letter, if not the spirit, of the exemption granted by Section 4 (p) of the Income War Tax Act."

It is common ground that when you have a true cooperative, what we call a true cooperative, there is no income tax because the proceeds go directly to the persons who have produced. Continuing:

"Submissions Previously Made

"In view of the fact that a number of very comprehensive submissions on the subject have already been made to the Commission and that those submissions cover the whole field of controversy, it is felt that little if anything can be usefully added to what has already been said.

"The parties on behalf of whom this brief is presented have had an opportunity of studying those earlier submissions, particularly those made on behalf of the Independent Dairy Companies of Vancouver, the Independent Dairy Companies of Southern Alberta, and the Independent Dairy and Creamery Companies of Manitoba, as well as the one made by the Income Taxpayers Association, and as they find themselves substantially in accord with the views there expressed they beg leave to adopt them as their own and to rely upon the arguments made in support of them."

In view of some of the things said this morning, I wish to make it perfectly clear that not all of the clients

for whom I act have studied the submissions made by Senator Farris or the Southern Alberta or the Income Tax-payers Association. Some of them have. They have formed a committee who have studied these things. At least, they brought them to me and laid them before me for my study and opinion, and this brief, such as it is, was drafted in the light of that and was gone over with the committee. To say that all the independent operators for whom I act are fully conversant, or that I am fully conversant, with all the submissions previously made on the subject would not be correct; but I do submit that if the statements in these other submissions which we have adopted are founded in fact, and if the arguments based upon those facts are correct, it either adds or detracts little whether every independent operator has studied all those submissions and then studied the resume which is my brief. After all, the facts, on which there is little controversy, and the proper inference to be drawn from those facts remain constant whether they are known to 10,000 people or to 1,000. If they are facts they are facts. Continuing:

"Contentions

"The contentions of the parties on whose behalf this brief is submitted (the soundness of all of which, they submit, has been fully established by the briefs heretofore furnished to the Commission) may be summarized as follows:

"1. That in the case of the true cooperative no exemption from income tax and excess profits tax is necessary, for the simple reason that if it merely carries out its function of marketing the products of its producer members and accounting to them for the proceeds, less actual expenses, it cannot have any taxable income whatsoever.

"2. That many of the so-called cooperatives are cooperatives in name only and are in reality business organizations with wide ramifications, competing in many fields with privately owned businesses."

I am not dealing particularly with Nova Scotia with regard to the clients I represent, because the competition in our particular line in Nova Scotia at the moment is negligible. Continuing:

"The mere fact that in the Provincial Legislation under which they are organized these corporations are described as cooperative associations does not make them true cooperatives.

"The real test is whether or not the business they carry on under the powers conferred on them by the Provincial Legislation is carried on on a non-profit and truly cooperative basis.

"For instance under the Nova Scotia Act, Chap. 7 of the Acts of 1935 as amended by Chap. 40 of the Acts of 1942, any five persons, all being residents of Nova Scotia may be incorporated into a cooperative association if the objects set forth in the Memorandum of Association are solely as follows:

'(1) To buy, sell, barter, take on consignment, pack, process, manufacture, dry, preserve, can, grade, store, harvest, handle, utilize, or deal in live-stock and livestock products, eggs, poultry, seeds, feeds, fertilizer, and all kinds of farm and forest products, fish and all products of the sea, and all manner of merchandise and services, and all material, apparatus, implements, and merchandise necessary for producing, packing, processing, manufacturing, marketing, transporting or providing such goods, services

and merchandise.

'(2) To buy, sell, lease, erect, improve, manage or operate stores, warehouses, wharves, canneries, plants, storehouses and other buildings and structures incidental or conducive to the purposes of the association, and to carry on the business of processors, manufacturers, storekeepers or warehousemen in connection therewith.

'(3) To secure the best market for the sale of property of its members and to arrange for the transportation of such property.

'(4) To become a member or shareholder by original subscription or otherwise, or a Director or Managing Director or other officer, of any other company having objects altogether or in part similar to those of the Association.'"

That clause is not limited to participation or co-operation with other cooperatives. Continuing:

"'(5) To do all such other things as are incidental or conducive to the attainment of the above objects.'

"It is submitted that if a cooperative association organized under the Act exercises the powers thus conferred upon it, other than that of cooperatively marketing the products of its member producers, and enters the field of processing, manufacturing, providing services, acquiring property and operating plant, machinery etc. it is these non-cooperative business activities which are the material factors in producing revenue."

So far as Nova Scotia is concerned, these cooperative associations come under the general provisions of the

Nova Scotia Companies Act, except in so far as certain provisions of that act are stated not to be applicable. The act for the incorporation of cooperative associations is Chapter 7 of 1935. It was amended by Chapter 40 of the Acts of 1942, but for convenience of reference it happens that the Companies Act of Nova Scotia was revised in 1935 by Chapter 36, so that in the volume of statutes for the year we have the general Companies Act and the Co-operative Associations Act in juxtaposition, one being Chapter 6 and the other Chapter 7.

These associations are definitely joint stock companies to which the provisions of the Nova Scotia Companies Act apply except in so far as certain provisions have been declared not to be applicable. Section 4 provides that any cooperative association may be incorporated under the Nova Scotia Companies Act and that the Act shall apply to such association if its memorandum of association is subscribed by not less than 5 persons, and so on. Section 7, which was amended, deals with the compulsory reserves that must be set up. Section 7 as amended by the Acts of 1942 provides that every cooperative association, for the purpose of establishing a reserve fund, shall annually set aside a sum of not less than 5 per cent of the amount of its net proceeds to be called a reserve fund, until there is accumulated in such fund an amount equal to at least 30 per cent of the paid up capital. But that is clearly an economic reserve; it is not to be a distributable reserve or a reserve for any purpose other than financing for the time being or for the future needs of the association. In that respect it differs from the Companies Act in the case of an ordinary corporation, because there is no compulsory reserve in an ordinary

corporation. Originally it was 10 per cent and now it is 5, and in both cases the minimum. It is my submission that these cooperatives are joint stock companies and that as such they have an entity entirely apart from the entity of the component members. It is, as I conceive it, the intent of the Federal Acts -- the Income War Tax Act and the Excess Profits Tax Act -- to tax corporations. They tax them no doubt by way of income but the tax is on the corporation in the first instance, though the shareholders get a second dose of taxation if and when dividends come into their hands. But in the whole incidence of the tax it falls on the corporation in the first instance.

Something was said this morning about taxation in England. That would mean that we should have to remold the whole tax structure. Broadly speaking, according to the system of taxation in England, the tax does not fall on the corporation directly. The joint stock company or corporation is merely the tax gatherer for the government. It deducts from the dividend 50 per cent and forwards it to the Treasury, and the shareholder is credited on his income tax with the amount that has been withheld from his dividend by the company. So that you could not equate the taxation of cooperatives here with the taxation of such organizations in England without changing the whole scheme of the Act and doing away with corporate taxation as such. Continuing:

"3. That such so-called cooperatives are in direct competition with privately owned businesses of a similar nature and consequently should be subject to similar taxation and regulation, and not be permitted to continue to enjoy their present exemption from taxation and anti-inflation controls.

"4. That one of the most curious anomalies in our tax structure is that while every possible device is used to prevent an independent corporation or individual taxpayer from so ordering its or his affairs as to control or reduce taxes, in the case of so-called cooperatives inducements are held out to enable them to escape taxation entirely."

I do not think I need elaborate on that. Anyone who is familiar with taxation today, and who has a knowledge of the Income War Tax Act, knows that if any business concern, a corporation or indeed any individual, wished to assert as a right the principle of paying the least possible amount to the Treasury, such a corporation or individual would be confronted with the provisions of 32, 32A, the provisions of 19 and 13 and the provisions of 40, to say nothing of departmental rulings interpreting the statute for the most part in favour of the government and leaving it to the taxpayer to seek his redress where he can find it. That is the situation today facing the corporate as well as the individual taxpayer. The minister -- or the Treasury Board maybe -- has the power to disallow certain things which would have a tendency to relieve the burden on the individual or the corporate taxpayer. Section 4 (p), it seems to me, holds out an invitation to the so-called cooperatives so to shape their affairs and frame their constitutions with regard to membership as to claim exemption. I do not think that applies in the province of Nova Scotia. I know of no case where co-operatives in Nova Scotia have provisions requiring people to be members without knowing that they are members in order that the cooperative may keep within the 20 per cent rule. At any rate, I do not think that applies to any

extent in this province; certainly not in the class of industries I represent. That is a very definite anomaly in our whole tax set-up. Continuing:

"5. That the long term results of thus taxing and controlling to the limit the independent corporation and individual who must compete in almost every field of endeavour with the tax exempt so-called cooperative are bound to be:-

"(a) That the independent operators will in the end be forced out of business or compelled to sell out to their tax exempt and uncontrolled competitors, as they cannot hope to survive in the unequal struggle for business."

That is fundamentally sound. If one set of traders are to be exempt while another set of traders pay to the limit, it is only a matter of time when the tax-exempt will absorb those who have to pay taxes. In the second place, as the cooperatives eliminate or acquire private businesses, very fruitful sources from which the government obtains millions in taxation will dry up and new objects of taxation will have to be found. Continuing:

"(b) That as the cooperatives eliminate or acquire private businesses the very fruitful sources from which government obtains millions of dollars in taxation will gradually dry up, and new subjects of taxation will have to be found.

"(c) That in the meantime the taxation of private corporations and individuals to the exclusion of the so-called cooperatives is inequitable, discriminating and wholly unfair.

"Suggestion

"It is therefore respectfully suggested that the only

way in which this situation can be met is by the repeal of Section 4 (p) of the Income War Tax Act, or at least by so amending it as to make it clear that it shall apply only to true cooperatives.

"All of which is respectfully submitted.

C. B. Smith

Halifax, N.S.
March 5th, 1945.

Counsel for
the undermentioned Operators

Operators on Whose Behalf This Brief is Submitted

Yarmouth Ice Cream & Dairy Company Limited	- Yarmouth
Yarmouth Creamery Limited	- Yarmouth
MacKenzie Creamery Limited	- Middleton
Tatamagouche Creamery	- Tatamagouche
Ideal Ice Cream Company Limited	- Sydney
Brookfield Creamery Limited	- Truro
Maple Leaf Dairy Limited	- Halifax
Oxford Dairy Limited	- Halifax
Army and Navy Dairy	- Halifax
Halifax Creamery	- Halifax
Musquodoboit Creamery Limited	- Truro
Oxford Creamery Limited	- Truro
Amherst Creamery Limited	- Amherst
Brookfield Dairy Limited	- Sydney "

THE CHAIRMAN: It might be well if some of your clients are here to put them in the box for brief examination.

R. B. MacLENNAN

President,
Brookfield Creamery
Limited, having been
duly sworn, testified
as follows:

BY MR. SMITH:

Q. You reside at Truro? A. Yes.

Q. You are President of Brookfield Creamery, Limited?
A. Yes,

Q. And you are also interested in other creameries
throughout the province? A. Yes.

Q. Did you hear the brief just read on behalf of
certain independent operators of creameries and dairies
in the province of Nova Scotia? A. Yes, I heard it.

Q. Will you state the circumstances under which that
brief was prepared? A. It was the outcome of a number
of creamery men getting together two or three weeks ago
when some of us were authorized to engage counsel to look
after the thing.

Q. A committee was appointed? A. Yes.

Q. And that committee conferred with counsel?
A. Yes.

Q. And the brief before presentation was submitted
to that committee? A. Yes.

Q. Is it fair to say that, to your knowledge, the
brief represents the views of the corporate and individual
creameries and dairies whose names are appended to it?

A. Yes.

BY MR. FRANCIS:

Q. May I direct a few questions to the witness. To
lay the basis for those questions, which arise out of the
brief, may I ask first of all what position you hold with
the Brookfield Creameries? A. I am President and General

Manager.

Q. What other creameries are you financially interested in -- Musquodoboit? A. Yes.

Q. Oxford? A. Yes.

Q. Amherst? A. Yes.

Q. And of course Brookfield? A. Yes.

Q. Was Brookfield Dairy Limited organized as a farmers' creamery? A. A farmers' joint stock company, yes.

Q. Do you remember how many farmers originally formed Brookfield? A. That was about fifty years ago; I was not present at the organization.

Q. What was your first contact with the Brookfield Creamery? When did you first become associated with them? A. I was employed by them in 1901.

Q. In 1901 when you were first employed by the Brookfield Creamery how many farmers were in control of that company at that time? A. I cannot answer that question directly.

Q. Quite a number? A. Yes, practically all the farmers in the community, all the dairy farmers.

Q. And it was organized by the farmers as their own company? A. Yes.

Q. And you went in in what capacity? A. Plant manager.

Q. In 1901. Do the farmers who held shares in that company in 1901 hold them today? A. No.

Q. Who holds them? A. Brookfield.

Q. Do you hold some of them? A. The majority of them.

Q. You control the company? How were those shares acquired from the farmers who formed this company? A. At

Q. You control the company? How were those shares acquired from the farmers who formed this company?

A. At a meeting called for the purpose of deciding whether to sell out to myself and another party, Mr. Cox.

Q. And you and Mr. Cox carried on the business?

A. Yes.

Q. And then Mr. Cox dropped out and you continued?

A. Yes.

Q. Do you know whether any of the other companies to which I have referred, in which you have an interest, were organized as farmers' creameries? A. I am not positive, but I think Musquodoboit was.

Q. Do you know of any others in which you have no financial interest but which are supporting the brief that were also organized as farmers' companies? A. I don't think there are.

Q. My instructions are that there are several of these organized as farmers' companies the control of which gradually got into the hands of one or two people.

A. There might be one or two, but I am not sure. Any of those so organized were organized years ago.

Q. I presume that at that time the legislation under which farmers could organize a creamery was not satisfactory? A. I would not say that.

Q. At any rate, the control of the creamery was by shares rather than under the cooperative method, by individuals. It was a joint company? A. Yes.

Q. And the fact of the matter is that at least some farmers' creameries which were formed by the farmers to handle their own products have come into private hands.

A. Yes.

Q. I would like to ask this question, now that the basis has been laid. I refer you to the introductory clause of the brief, which reads: "There are in the province of Nova Scotia at present some twenty-two or twenty-three operating creameries and dairies, and of these only two or three at most profess to be cooperatives." Is it fair to say you control five of them? A. Yes.

Q. You control five of the independent creameries. Will you name the two or three that profess to be co-operatives? A. Most of the joint stock companies --

Q. It is this profession that I am interested in. You say that only two or three at most "profess" to be cooperatives. I want to know about them. A. I am not prepared to say that they even profess to be cooperatives.

Q. You say in your brief on page one that there are in the province of Nova Scotia at present some twenty-two or twenty-three operating creameries and only two or three at most profess to be cooperatives. I want to know what that means. A. Well, the Scotsburn Creamery is spoken of as a cooperative but it is a joint stock company.

Q. Is it an old organization? A. It was organized in 1898.

Q. But it operates on a cooperative basis? A. Yes, as a farmers' joint stock company, and the proceeds are largely turned back to the farmers.

Q. So that it is in the control and in the hands of farmers? A. I think so.

Q. The Scotsburn is in control of farmers. I would like to submit to you certain figures with regard to Scotsburn. Do you mind showing the Commission on the map where Scotsburn is? A. It is just outside Pictou.

Q. Show where Oxford is. A. It is in Cumberland County.

Q. And Stellarton? A. Stellarton is the other side of Pictou.

Q. And Amherst? A. Amherst is further west.

Q. It is fair to say that the Oxford Creamery being in close proximity to Scotsburn, those two are in competition? A. What do you call close proximity?

Q. Their territories are adjacent. A. There are two creameries between them.

Q. What are the creameries in between? A. Tatamagouche and Malagash.

Q. Tatamagouche is in direct competition with Scotsburn? A. Yes.

Q. Therefore Tatamagouche must meet the competition of Scotsburn? A. Some of it.

Q. The Oxford is in competition with Tatamagouche? A. Yes.

Q. So that the Oxford must meet indirectly the competition of Scotsburn. Is Amherst in competition with Scotsburn? A. There are two creameries.

Q. The competition is not so direct. I call attention to some figures and I present to you a statement from the report of the Dairy Superintendent of Nova Scotia, prepared by the Nova Scotia Farmers' Association. I will read the figures into the record.

MR. PARKER: I am not sure that the record should be loaded up with figures unless my learned friend undertakes to have them clarified. It may be misleading. I am not objecting; I merely wish to ensure that the material submitted is of value.

THE WITNESS: Any figures given the Dairy Superintendent are in confidence and I protest against having them made public to the general press.

MR. PARKER: Let us be careful. The Dairy Superintendent is a public official.

THE WITNESS: They are not published in the annual report.

MR. PARKER: What do you mean by saying they are confidential? We do not want anyone to divulge confidential information.

THE WITNESS: I have never seen it; I have never been able to get it.

MR. PARKER: You said it was confidential and you left the impression that someone is breaking a confidence in revealing the information. If you do not mean that, say so.

THE WITNESS: As manager of five creameries I have never been able to get official copies of the prices paid by other creameries.

BY MR. FRANCIS:

Q. I will tell you what my instructions are and I wish you would tell the Commission if I am wrong. I can show the relevancy of this in a moment. Taking the year 1942, and taking the months from January to December --

A. Why not take 1944?

Q. I take 1942 because I presume the 1944 reports are not available. They are not to me, at any rate.

A. I can make them available.

Q. That would be helpful; I thought they were not.

A. I can make them available to the Commission.

Q. For Amherst? A. Yes.

Q. I would be greatly pleased if you would do that.

A. Yes. You are referring to 1944?

Q. Yes; and in the meantime we will deal with 1942. I want to take them in this order: Amherst, Oxford which is in competition with Scotsburn, and Scotsburn. Let us take the prices paid for butter fat in January. A. I want to interject here that the comparisons are altogether unfair.

Q. That is a matter for the Commission to decide. A. Prices are paid at the farm and if your country is compact, where you can get cream gathered at very low cost, it makes several cents difference in the price of butter far. I know what you are after and I know also what the situation is.

Q. Let us help the Commission to get an idea of the situation so as to see what has happened to the industries that have gone out of farmer control. A. If you will allow me later to include the New Brunswick area with which we are in competition, I would be willing.

Q. You have counsel and he will see that you get a chance to do everything you should. In January the figures are: Amherst, 33 cents; Oxford, 39 cents; Scotsburn, 39. In February: Amherst, 33 cents; Oxford, 39 cents; Scotsburn, 39 cents. A. Just a minute. The cream was gathered by team and truck whereas Scotsburn was delivered.

Q. You can explain it later.

MR. SMITH: If it is not explained until later the explanation may not then be applied to the figures. When you have comparative figures you must know the circumstances.

BY MR. FRANCIS:

Q. Explain it then. A. They are not the same conditions and not the same price. There is a difference of four or five cents a pound and in some cases seven or eight.

Q. How is that seven or eight cents made up?

A. Covering cost in the winter by team and truck in country where there is heavy snow and there are small quantities of cream as against large quantities in a given area, and besides there is the contrast between developing new territory and territory developed for forty-five years. Amherst Dairy has only had a creamery operating in the winter for a few years.

Q. Explain to the Commission how that works. I do not understand how you would arrive at eight cents a pound for butter fat. A. If the farmers, as they do in Scotsburn, load cream on a team and take it to the creamery a number of miles or take it to the railway and put in on the car you have not the same condition as exists in Amherst where we have to send trucks and gather the cream and hire teams.

Q. You know Amherst? A. Yes. Very often it costs five, six and seven cents a pound. It is over that area that we operate the same as the cooperative creamery that is serving some of that territory previously operated from June to September and went out of the picture the other eight or nine months.

Q. Do you gather all the cream at Amherst? A. All we can get.

Q. Is any delivered by the farmer? A. Very little. The local interests use their own milk. There might be an odd farmer bring in a small quantity.

Q. Take the month of March. Do you say that for the month of March where the price at Amherst was 33 cents and the price at Scotsburn was 40 cents, that entire difference is made up by cost of gathering the cream? A. Yes.

Q. That is your statement? A. Yes.

Q. That is to say, out of the 40 cents --- A. May I interrupt you there. There is only a very small quantity of cream involved.

Q. Butter fat basis? A. Yes.

Q. Per pound? A. The picture, I would say, is not a fair one at all.

Q. If it is not fair, we will find out, but I want to know what the truth is. I want it to be perfectly clear. A. What about the Oxford Creamery? We have a larger quantity at Oxford.

Q. Let us take Amherst while we are at it. Out of the 40 cents which he would get at Scotsburn, your farmer, in a position similar to the farmer in Scotsburn, pays seven cents for having the cream taken in -- seven cents per pound butter fat?

MR. SMITH: That is not a fair question. It is not cost to the farmer for delivering; it is cost to the creamery.

THE WITNESS: The statement is not a fair one and I protest the whole procedure, because it is putting one against the other when the conditions are not comparable. It is an entirely different procedure. If you have to drive twenty miles and somebody else does it in the city the results will not be the same. You are trying to paint a picture that is not a true picture, picking out one creamery that has a small output and only getting started and comparing it to something else it cannot be compared with, and I protest. Take Musquodoboit.

BY MR. FRANCIS:

Q. I do not want to take up the time of the Commission with too many details. A. You will have to dig up

more details.

Q. Perhaps you will be willing to submit to the Commission full information regarding the relative prices where there is a cooperative and where there are private industries, and then the Commission can decide whether my questions are relevant. A. The Commission sat in Moncton. I don't know whether the Moncton Farmers Co-operative Creamery submitted a brief or not.

MR. SMITH: If my learned friend will take the prices paid by the Moncton Co-operative Creamery, who sell butter in the same area we do and whom we have to meet in competition, I shall be glad to submit it. I have a list showing prices ranging from one to seven cents less than Amherst.

BY MR. FRANCIS:

Q. Do you contend that the competition of the co-operative creamery has no bearing on the prices you pay?

A. No. Our competition is just as much with the other creameries.

Q. Does the cooperative competition of Scotsburn have any bearing on the prices that surrounding creameries pay? A. The matter that has a bearing on us is the quantity, the amount of business, the volume and the cost of collecting and operating.

Q. I will ask the question again. Does the existence and operation of any cooperative creamery in Nova Scotia have any bearing upon, or does it in any way affect, the operation of any privately owned creamery? A. I will ask you another question.

Q. No. If you don't mind, I am asking the questions. A. Then I say, no; it would not make any difference.

Q. If that is true why, then, in your brief are you so afraid of cooperative competition? A. Because of the history of the thing all across Canada.

Q. So that it is an academic interest?

THE CHAIRMAN: The solicitor pointed that out in his comments on the brief, that it was not the matter of competition that was feared. He made that point in opening.

MR. SMITH: Quite right, my Lord.

BY MR. FRANCIS:

Q. There is one other clause in your brief to which I wish to refer. You are speaking personally for five companies and your brief submits: "3. That what they do object to is the exemption granted to so-called cooperatives, which are in reality not cooperatives at all, but corporate business organizations with wide ramifications, which in the light of the existing law have been able to so astutely frame their constitutions and by-laws and order their affairs generally as to be within the letter, if not the spirit, of the exemption granted by Section 4 (p) of the Income War Tax Act." What I suggest to you is that these farmer dairies are cooperative in spirit, though perhaps not in the letter, whereas you have reversed it. They are essentially cooperative in spirit, like the Scotsburn, but so far as the letter is concerned, owing to the fact that they were organized in the last century they did not have such facilities for setting up cooperatives as exist today. Would that be a fair way of putting it? A. May I have the permission of this Court to give you the true picture of the Scotsburn Creamery as it operated for seven or eight years under the Dominion Department of Agriculture. In 1893 Scotsburn was started as a whole milk creamery and

was operated by the Dominion Department for a number of years -- I would not be sure of the time. The first year they did little business. My home is three miles from there and I was working on the farm and we were shipping milk to the creamery at the time. The creamery was carried on under government supervision and operated at a loss consistently for some years. It was operated as a demonstration creamery to show how creameries should be run in the province of Nova Scotia and other creameries that were then operating went out of business altogether. They are not in the picture today. When the Scotsburn Creamery was started the farmers put up a building that cost \$1,050 and the local government supplied the plant. They put it in. The Dominion Government, through the Department of Agriculture, undertook to operate the creamery and they carried it on, as I have said, for eight or nine years sustaining a loss month after month. In one year's operations they made only 16,000 pounds of butter. The government kept a man on to put out propaganda, which is a good thing, but this is the situation. After three or four years, about the time cream separators were coming in, the farmers began to buy separators. It was suggested that they gather cream instead of whole milk, and a short line had just been built from Pictou to Oxford through that country where the creamery was right at the station. Separators were sold all through the country and they began developing a dairy country there. At the end of eight years the company was on its feet operating and paying expenses and the Dominion Department turned it over to the Scotsburn Creamery. In their charter there is a limitation to 5 per cent dividend. In a period of years they built up a surplus of \$35,000 or

\$40,000 and built a new creamery. Then private operators started to operate. When the Brookfield started to operate, and later on Tatamagouche, they had a volume of 1,025,000 pounds of butter one year, and the private operators started. The private operators didn't have money, paying their way as they went, and yet their production dropped from over a million pounds to somewhere about 210,000 pounds one year. They dropped down when they were in competition and they had to use up some of the surplus. They had a fire and rebuilt the plant from insurance, and then for a number of years according to their own statement they operated at a loss, about a thousand dollars, I presume in an endeavour to make it embarrassing for their competitors in private industry. Then they were under new management; they have had an efficient manager in recent years. But they had the advantage of capital supplied and plant supplied them by the local and Dominion Governments originally. It has been replaced out of earnings and the capital today is \$1,050, and they have the advantage that they are along the railway and have been allowed to bring their cream in from these other points at a low rate. So far as other creameries in Nova Scotia are concerned -- Brookfield, Oxford, Amherst -- on any cream we bring in we have to pay express rates. To show what that means, I may say that a few years ago I had occasion to make application for a special rate express on cream. At that time we were shipping cream from Brookfield which is eight miles from Truro and other farmers were shipping milk to the Borden plant. The Borden milk came by baggage at two and a half cents a ten-gallon can, the empty can being carried back free. It cost us twenty-five cents to bring in a can of cream and five cents for the

empty can to go back, on the same train at the same station. That is what Brookfield has been up against, and the Amherst Creamery. For anything brought on the train we pay express rates whereas Scotsburn gets its cream, because it is on a branch line, at freight rates. Here is another illustration. The express rate on one hundred pounds of fat from Brookfield to Truro was more than the combined freight and duty on one hundred pounds of butter from New Zealand to Truro. And then they are coming here and putting us up against all these conditions and they don't want us to say anything about it. Fortunately I know the story.

BY MR. ARNASON:

Q. I thought you said that one of the cooperative creameries sustained a loss of about \$1,000. A. Scotsburn

Q. I understood you to say that loss had probably been sustained in an effort to embarrass their competitors.

A. That is a supposition.

Q. Is not that an unusual condition? I was wondering whether there might not have been some other factors such as management. A. I don't think so. They had a surplus built up over previous years before the trucks came in and were a factor in competition, because when we started trucks were not used to the extent that they were later on, our territories were pretty well defined, and each one played in his own back yard. But when the trucks came they made a difference. I must say I have been forced into this statement about Scotsburn. I had no intention of bringing it up, because they are friends of ours, but when you are back against a wall you have to clear the thing up.

BY MR. FRANCIS:

Q. Do you know of any private creamery bought

recently by a cooperative in the province? A. I don't know whether Antigonish would come under that. Antigonish was semi-private.

Q. It was originally just farmers? A. Yes. I understand it has been taken over.

Q. By a farmers' cooperative? A. Yes.

Q. So that the farmers have it back in their hands?

A. I don't know whether it is a farmers' cooperative.

Q. You have in your brief the statement that the cooperative people "have been able to so astutely frame their constitutions and by-laws and order their affairs generally as to be within the letter, if not the spirit of the exemption granted by Section 4 (p) of the Income War Tax Act." Is that right? A. Ask any solicitor.

Q. One other question. On page five, near the top of the page, you say: "It is submitted that if a cooperative association organized under the Act exercises the powers thus conferred upon it, other than that of cooperatively marketing the products of its member producers, and enters the field of processing, manufacturing, providing services, acquiring property and operating plant, machinery etc. it is these non-cooperative business activities which are the material factors in producing revenue." Now turn back to page four and read from the Act as quoted by your Counsel: "To buy, sell, barter, take on consignment, pack, process, manufacture," and so on, on a cooperative basis. I will direct my question to this point. The law of Nova Scotia provides that a group of people may form an association to process and manufacture on a cooperative basis. Why do you call processing and manufacturing non-cooperative business? I would like an answer to that.

MR. SMITH: In reading the objects clause you added "on a cooperative basis" and there are no such words in the section you were professing to read. My answer is that there is nothing in the objects clause of the Act which says that these powers are limited, to be exercised on a cooperative basis. It is not even mentioned.

MR. FRANCIS: May I read the whole section?

MR. SMITH: Perhaps that is the answer.

MR. FRANCIS: It is not the answer. Let me quote from the brief on page four: "For instance under the Nova Scotia Act, Chap. 7 of the Acts of 1935 as amended by Chap. 40 of the Acts of 1942, any five persons, all being residents of Nova Scotia may be incorporated into a cooperative association if the objects set forth in the memorandum of association are solely as follows." In other words, any five people may form a processing and manufacturing plant. What is it that processing and manufacturing are non-cooperative?

MR. SMITH: I think my learned friend's question ignores the basic fact which I attempted to make clear, that because an association is called a cooperative association that does not necessarily make it a cooperative association in fact. The activities which it carries on determine whether it is operated on a cooperative basis or not. As I attempted to point out in the brief, the corporations called cooperative associations are joint stock companies to which the Nova Scotia Joint Stock Companies Act applies except in those particulars in which the Cooperative Associations Act says they shall not apply, and there is nothing in either Act which says that the cooperatives are to be carried on on a cooperative basis. Furthermore, I would say to my learned friend that if

there were any such limitation in the Act it would be a question of the interpretation of the Income Tax Act whether they remained within those provisions.

MR. FRANCIS: I will reserve the rest of my argument for Ottawa.

THE WITNESS: May I finish that?

MR. SMITH: No.

THE WITNESS: I have figures of prices paid by Amherst Creamery last year, compared with prices paid by Scotsburn. It so happens that the Oxford and Amherst Creamery paid exactly the same price over the year and I have the Oxford prices here -- I had to have them for other purposes -- as compared with the Moncton Co-operative Creamery, our competitor in that area, and I would like to read them:

<u>1944</u>	<u>Amherst</u>	<u>Moncton</u>
January	.42	.38
February	.42	.38
March	.42	.37
April	.42	.37
May	.42	.36
June	.39	.34
July	.39	.36
August	.41	.36
September	.41	.37½
October	.41	.38
November	.41	.38
December	.41	.40

Those prices were got, not from the cooperative company but from sources I am practically sure are correct. They might be one or two cents out, but I wanted to show, in connection with the Amherst Creamery, that when we got the business going a little while we could meet any competition.

that comes along.

MR. PARKER: There is just one comment I would make. In the brief under discussion we have the old expressions that we have been wrestling with all along, "true co-operative" and "so-called cooperative". Is my learned friend, either personally or through his witness, in a position to draw the line for us and make clear the distinction between true cooperative and pseudo-cooperatives? If it is a true cooperative, he admits there is no taxation; there is if it is a so-called cooperative or an organization that is simply masquerading as one. It would help us if he could draw the line.

MR. SMITH: I do not by any means profess to be an economist, and indeed there was a time when it was not wise to be thought one. I think perhaps Mr. Justice Lamont, in the Wheat Pool case, put it as well as anyone could, that each case has to be decided on its own set of facts.

THE CHAIRMAN: A very good legal principle.

MR. SMITH: But it is very difficult to apply unless the facts are all known. I submit with deference that, in the first place, a true cooperative is one that handles the products of its producer-members and markets those products for them and returns the proceeds as agent. It returns the whole proceeds without deduction other than for ordinary marketing expenses, so that the individual who brings in his produce to the cooperative gets back the fair price realized by the cooperative as his marketing agent, less proper charges for marketing. To take the simple case of milk brought into a creamery, shall we say, and converted into chocolate milk. There

you have processing. The cocoa beans came from Brazil -- or wherever they come from -- and they are originally to a certain extent as much the product of the growers in Brazil as the milk is the product of the farmer in Nova Scotia. Surely, when you go into the market and buy another product and mix that with the farmer's product, and when you build a plant for that mixing process, the identity of the article brought in by your producer, that is to say the milk, being merged with the extraneous product with which it is mixed, hiring labour and all the rest of it, you have no longer something that is primary. You are dealing then not merely with producer labour or farmer labour alone. It is that plus something else. Each ingredient loses its identity in the finished product. If the organization is to be truly cooperative, if it is in fact cooperative, then the reserves or whatever they may be should belong proportionately to the respective producers whose labours have gone into the production of the different elements. That is the result of a corporate body, and so far as capital goes, it is the same thing. Under the Nova Scotia Act they are joint stock companies. The shares may be fixed at a dollar, but they are capital; and it seems to me that as the corporation grows and reserves are built up, while the capital employed in the business may be owned by shareholders, it is the capital of the company. It does not matter in essence whether that capital is built up by reserves which are taken off what would otherwise be the price of the producer-members' goods. It does not apply so much in Nova Scotia, but we are dealing with this in the abstract. It is the wise use of capital that enables profits to be made and maintained by the corporate entity,

and the difference between the true cooperative and the so-called cooperative is discovered very soon after the business starts to go. Just as soon as reserves which are much greater than statutory reserves are built up and used in the extension of the corporate activity by the procuring of plants, processing and all those things, the organization is no longer true to its cooperative nature but becomes a business corporation which should be taxed like any other corporation which is using the combined capital of its members to produce revenue.

MR. MILLIKEN: I wonder if Mr. Smith would clarify that. He has told us that a true cooperative is one that markets the products for its members. Do you mean to limit that, Mr. Smith, and say that no true cooperative can buy anything for its members?

MR. SMITH: No.

MR. MILLIKEN: I wondered if you meant that.

MR. SMITH: No. I quite agree that with the authority of the member it can cooperatively purchase for those members if it can get supplies to better advantage. The real test is whether the thing that is purchased is handed right over.

MR. MILLIKEN: Did you deliberately omit reference to the Saskatchewan Dairy brief, or did you not consider it sufficiently important?

MR. SMITH: I did not see it.

MR. MILLIKEN: I hear people talking here about whipping cream. We are not allowed to buy cream at all. You have a farmers' cooperative that is selling cream; in Saskatchewan that cream has to be turned into butter before it is sold. We cannot buy cream in Saskatchewan; we have

to buy butter. Are you suggesting that if you have a producers' cooperative that is marketing cream it cannot handle that cream in such a way as to put in on the market, that is, to turn it into butter, so that if it does that it is no longer a cooperative? Do you see the difficulty?

MR. SMITH: Yes I see that.

MR. MILLIKEN: What do you say in that case?

MR. SMITH: I say again, I have not sufficient knowledge of Saskatchewan conditions or just what the set-up of the wheat pool is.

MR. MILLIKEN: I am not talking about the wheat pool but about dairies.

MR. SMITH: Or the Saskatchewan dairies. But it is my opinion that the dividing line between the true co-operative and the so-called cooperative comes the moment reserves, which in my submission represent profits, are used for expanding the capital of the cooperative company so as to enable it to engage in activities other than the original purpose of marketing the product. I am speaking now of producer cooperatives. I know nothing about the wholesale and retail cooperatives.

THE CHAIRMAN: I do not know that we are getting very far with a debate between Counsel, Mr. Smith and Mr. Milliken.

MR. SMITH: I am willing to desist, my Lord. Mr. Milliken is an expert; I am not.

THE CHAIRMAN: That closes the brief, Mr. Smith?

MR. SMITH: Yes, my Lord.

.....
Memorandum Submitted by Certain Insurance Agents Representing
Joint Stock Insurance Companies

MR. McINNIS: At the opening, Mr. Chairman, there were some undersubmitters present with a memorandum which they asked

me to submit. It consists of two paragraphs.

THE CHAIRMAN: Let us have it.

MR. McINNES: It is signed by eighteen Halifax general insurance agents and reads:

"In Re Royal Commission on Co-operatives and Mutuals,
P.C. 8725

"The underlisted insurance agents of the Province of Nova Scotia representing Joint Stock Insurance Companies carrying on in Canada on the cash plan the business of Fire, Automobile and Casualty Insurance.

"1. It is submitted on behalf of the group above mentioned that as income tax payers, their respective tax burden is higher than it otherwise would be if the organizations commonly known as Mutuals and Co-operatives contributed their share of taxes under the War Income Tax Act and the Excess Profits Tax Act.

"2. It is submitted on behalf of the group above mentioned that in their capacity as agents, their field of endeavour is circumscribed because of the fact that their principals, viz., Joint Stock Insurers, are at a grave disadvantage in competition for business because of the preferential position that the competitors of their principals, viz., Mutual and Reciprocal Insurers are placed, by virtue of their exemption from taxation under the two aforementioned acts.

A Crease (Chairman)

Alfred J. Bell & Company Limited

Douglas, Rogers, Co. Limited

Faulkner & Company

General Insurance Agencies Limited

Grant, Oxley & Company Limited

A. J. Haliburton & Company

W. H. Hebb & Company Limited

Jack & Company Limited

R. K. Kelley & Company
W. R. MacInnes & Company
Major Brothers Limited
Maritime Agencies Limited
Oatway & Thompson
Rainnie & Company Limited
Saunders & Duffus
John Strachan Company Limited
Thompson, Adams & Co. Limited

February 27, 1945."

MR. PARKER: That brings us to the stage of business where there is only one brief left to be disposed of this afternoon, that is the submission by St. Francis Xavier.

The Commission adjourned until 2.15 p.m.

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The Commission resumed at 2.15 p. m.

MR. PARKER: There is only one brief to be considered now and that is the brief of the Extension Department of St. Francis Xavier University, sponsored by Dr. Coady.

THE REVEREND M. M. COADY, Ph.D.,

The Extension Department,
St. Francis Xavier University,
having been duly sworn,
testified as follows:

BY MR. PARKER:

Q. I believe you have a brief which you wish to present, Dr. Coady? A. Yes. I want to ask permission first to eliminate three small sections on page seventeen. They have been so well covered that I do not think there is any sense in my reading them now. They will be found under the headings of Merchandising, Credit, Processing and Marketing respectively.

Q. You are not withdrawing them but merely omitting to read them? A. Yes. On page twenty-four, in the last sentence: "Sweden, for example", and so on, I wish to strike out the words after "it" and substitute the words "has been extremely effective in controlling and breaking monopolies". The brief reads:

"1. Introduction

"1. The basis of this submission:

"I am presenting this brief on behalf of the Extension Department of St. Francis Xavier University, Antigonish.

"At the outset I wish to explain that we are interested primarily in the social and human values at stake in this investigation. Other briefs being presented in Nova Scotia will, I am sure, put forth competently the economic issues

and will discuss the legal and legislative aspects of the taxation of cooperatives; but this presentation will deal with the philosophy of cooperation and its influence in the field of human welfare.

"Avoiding, therefore, all legal technicalities and all intricacies of finance, we shall defend the stand that cooperative enterprises are such valuable agents for social betterment that no obstacle should be allowed to retard their progress, and that any existing impediment to their development should be removed.

"2. Why we are submitting a brief:

"Some may wonder why a university should take sides in a controversy which, on the surface, appears to be one which should be decided by financial and legal experts. Or others may say that an institution devoted to academic pursuits should not enter a quarrel over such a mundane matter as taxation. Our answer is simply that St. Francis Xavier University, for reasons which will be given in this brief, has for some years been developing an adult education programme, of which economic cooperation is the first stage; and the men who were largely responsible for the growth of cooperatives in Eastern Canada cannot stand silent while the organizations which they fostered are being attacked.

"If this investigation had been confined to the legal issues at stake, we might have allowed the case for co-operatives to go before this Commission without entering any plea, and to have the question of taxation decided solely on the superficial aspects of the controversy. But it is now apparent that what must be settled is not whether the cooperatives shall pay income tax on this or that part

of their earnings. No, something of much greater importance and deeper significance is being decided. In truth, this is a stage in the struggle between the profit-motive system and the cooperative way of life. Your Commission will decide if the cooperative method of business is to receive full recognition before the law and if it is to be permitted to operate untrammelled in carrying out the programme which it has designed for the uplifting of the great masses of the people.

II. The St. F. X. Programme of Adult Education

"1. The origin of the Extension Department:

"The Extension Department of St. Francis Xavier University was opened in 1928. This was one of the peak years of the so-called prosperity era. To many people, the good times of the 'twenties' were positive proof that the millenium had arrived. Men forgot the dark days of the past; in their wildest imagination they could not dream of the darker days to come. They revelled in the high tide of good times which reached its crescendo in the late twenties and collapsed in such a spectacular manner in October, 1929.

"There are many people who look upon the movement as an emergency measure to meet and cope with the conditions of the people following this collapse. The founders of the Antigonish Movement had not been deluded by the prosperity of '28 nor had they to wait for the depression of '29 to become dissatisfied with the old order. The farmers and fishermen of Eastern Canada had for decades before this endured great depression. There were a few notable periods in which they had fairly good times, but in the main the old order meant poverty and misery for thousands of them.

"We are not surprised, therefore, to find that the population of the rural sections of Eastern Nova Scotia (the seven eastern counties) declined from 131,886 in 1891 to 105,279 in 1931 -- a loss of over 26,000 in forty years.¹

"The lot of the industrial worker was not much better. In boom times, especially during the last war, the industrial towns pulsed with life, but in between they suffered an economic blackout and became ghost-towns where no real human happiness could flourish. In one fifty-year period Eastern Canada lost four hundred and fifty thousand of its people to other parts of America. This acted like a pernicious Anemia on hundreds of communities. For the people of Eastern Canada it was not a question of one depression; it was a question of a whole series of depressions, of dark days when men lived in insecurity and fear, unable to concern themselves with anything but the grim struggle to keep body and soul together.

"And so, long before the economic convulsions of the thirties had shocked us into the realization that something was radically wrong, a number of people in Eastern Nova Scotia had interested themselves in a possible programme which would improve conditions in this country. Some of these people were professors at the University, others were agricultural workers, and others pastors of rural parishes. On a certain date these people did not dedicate themselves as a group to the people. They were not sufficiently united to be called a group -- they did not even have a clear idea of the permanent form their efforts should take. They were individual planners and thinkers, each with his own set of ideas as to what

1) Dominion Bureau of Statistics.

was wrong with the world, with Canada, and with these eastern provinces; each had his own opinion as to how these wrongs could be remedied.

"2. The beginning in adult education:

"The solution, some thought, lay in bringing the people to the University for the benefits of better education, and they began to experiment with what was known as 'The People's School'. Groups of people with varying educational backgrounds were brought to the campus for a period of six weeks, and given courses in various University subjects. The response showed that the people were anxious and able to learn; but the attempt had to be discontinued after four years, owing both to the difficulty of teaching University subjects to the ordinary man, and to the novelty of the idea of adult education. Moreover, they could never hope to carry education to the masses of the people in this manner alone.

"The second stage in the development of the movement came with a series of rural conferences, which later became rural and industrial conferences, attended by leaders in all walks of life who were anxious to enquire into the economic difficulties of the people of Nova Scotia. Out of their discussions came the conviction that education of the type which would reach out and operate in the lives of the great majority of the people must be the first step to reform and social improvement. To organize that educational programme and develop the necessary techniques, the Extension Department was set up.

"3. The basic principles:

"The principles and techniques which later characterized the Antigonish Movement were not ready for application at the

beginning but had to be evolved as the movement grew. The techniques will be outlined later in this brief, but the basic principles should be set down now.

"The essence of the philosophy on which the Antigonish Movement is built is contained in six principles. The first of these is the primacy of the individual. This principle is based on both religious and democratic teaching: religion emphasizes the dignity of man, created in the image and likeness of God; democracy stresses the value of the individual and the development of individual capacities as the purpose of social organization.

"The primacy of the individual gives rise to the second principle: that social reform must come through education. Social progress in a democracy must come through the action of the citizens; it can only come if there is an improvement in the quality of the people themselves. That improvement, in turn, can come only through education.

"The third principle is that education must begin with the economic. In the first place, the people are most keenly interested in and concerned with economic needs; and it is good technique to suit the educational effort to the most intimate interests of the individual or group. Also, economic reform is the most immediate necessity, because the economic problems of the world are the most pressing.

"The fourth principle of the Antigonish movement is that education must be through group action. Group action is natural because man is a social being. Not only is man commonly organized in groups, but his problems are commonly group problems. Any effective adult education programme must, therefore, fit into this basic group organization of

society. Moreover, group action is essential to success under modern conditions; you cannot get results, in business or politics, without organization.

"The fifth principle is that effective social reform involves fundamental changes in social and economic institutions. It is necessary to face the fact that real reform will necessitate strong measures of change, which are likely to prove unpopular in certain quarters.

"The final principle is that the ultimate objective of the movement is a full and abundant life for everyone in the community. Economic cooperation is the first step, but only the first, towards a society which will permit every individual to develop to the utmost limit of his capacities.

"4. How the programme was first received:

"The question may now be asked: how was this programme of adult education received? The answer is simply this: on all sides our work was lauded by those who had the welfare of the common people at heart, but in some quarters it was opposed by the ones who saw in it a challenge to those who had profited from the old system. And some who, in the beginning, were willing to see our programme applied in almost hopeless situations where the profit system had finally choked out economic life, became alarmed when they saw it succeed and spread to lucrative fields that were still yielding rich returns.

"But in spite of opposition, through the energy of zealous leaders and by the unearthing of undreamed of intelligence and ability in the common people, the work progressed. New fields were developed; new vistas were opened to the rank and file; and the movement has spread out to give new life and hope to an ever-increasing number of people."

I deduce the necessity of economic cooperation from the very idea of education. It might be asked why I should bring in the philosophy of education, but the reason will become apparent as I go on. Continuing:

"III. The Philosophy of Adult Education

"1. The false view of education:

"When the St. J. X. Extension Department was opened, it was felt that the masses of the people of Nova Scotia could be lifted to a new life through education. In a general way, education is the instrument that unlocks life to any free people. But the education of the past did not do this. Primary and secondary education has been an escape mechanism by which the bright and vigorous few from among the masses got away from the lowly classes into which they were born to join the elite of the nation. Education was the trapdoor that enabled them to go into the so-called higher professions. And thus education has been an instrument that has created classes in a supposedly classless society. The good jobs, the attainment of which has been the chief aim of education, are measured in terms of economic return. Our educational literature of the past was filled with this materialistic concept. Educators have held out this ideal. Thirty years ago they were drawing graphs to show the relationship between income and formal schooling. Elementary education paid so much, high school something more, and college something greater still. This was founded on the false philosophy that there is always room at the top.

It is a mathematical certainty that there is not room at the top. There is a limited number of good jobs in any nation and everybody can't get them. This is holding

out to the people the very questionable objective that success in life means rising over the dead bodies of their fellows. It is the worst manifestation of the competitive idea of life. According to this philosophy, everybody in a coal mine could by educating himself rise to the position of manager. Imagine a coal mine where everybody was manager and no one at the coal face. Some talk in the same way about business and finance. Men will rise in these activities, they say, if they have education and drive. What would happen if some day all the people in our towns and cities suddenly decided to go into business. We would be living by taking in one another's washing. Yet one man has as much right to go into business as another. And if all decided to do it they would be only taking educators at their word and carrying their false educational philosophy to its logical conclusion.

"Not only have educators floated this idea, but fathers and mothers have also promoted it. It is a commonplace in the experience of everybody to have heard from the farmer that he was sending his son to high school or college because he wanted to educate him so that he might escape the drudgery that he himself endured. The coal miner, the fisherman, and the lumberman talk the same language to their children. The bright child who gives signs of intelligence in school is immediately picked for a different career from that into which he was born. Rural people will mortgage their farms and workers will contribute their savings to the last cent to see to it that the favoured boy or girl gets a so-called chance in life. But the other boys and girls in the same home are not supposed to have any chance. In fact, their energies and

earning power will be used to help out the member who is to win the honours for the family. The result of this philosophy is to consider education as a means by which we can pick from the masses of our people enough members who will supply us with our army of professional, business, and service people. In other words, when you get enough lawyers, doctors, clergymen, business executives, nurses, school teachers, and stenographers, the job of education is done. Until recently we have not been interested in the great masses left behind. They will get along somehow. The idea is abroad that, after all, the kind of life they are leading does not call for education. This is no mere surmise of ours; the people openly preach it. Not only the people themselves but even educators look upon a man who goes to college and then returns to the farm or the fishing boat or the factory as more or less wasting his time -- as a failure. His family in the past would be ashamed of him. This, we believe, is a cheap and unphilosophical view.

"2. The new philosophy of education:

"But things are changing a little in this respect. In the last few decades people are beginning to associate these so-called humble callings with the idea of education. On account of the manifest necessity of scientific training for the proper development of industry and primary production, new jobs are opening up that make it dignified for a man to enter these callings. Any sound philosophy should teach that education is an instrument to unlock life to all the people. The philosophy of the past has taken for granted that there is only real life for the very few and that getting this life for them presupposes the existence

of a sodden, dull mass of peasantry as a necessary soil on which the privileged few should grow. It presupposes that as the masses of the people go up these few go down. The very opposite should be true. The higher the masses rise the greater should be the chance of those who hold the good positions in society. This is not only good humanitarianism but also good business from a materialistic viewpoint. This is an age of mass production. The correlative of mass production is mass consumption. In this technological age the people must have a high standard of living if the industrial machine is to function smoothly.

"But this worldly consideration should not be the chief reason for our solicitude for giving the good and abundant life to the people. The spiritual and cultural life of the nation depends upon it. We do not know much about the delicate forces through which a nation can throw up its leaders and geniuses which are its pride and crowning glory. There is every reason, however, to expect that the mysterious process by which this is done has something to do with the human stuff from which they emerged. We know from history that nations have flourished and then died. The real reason may never be known but something surely went wrong with the human factor. The policy of picking off the bright minds and neglecting the source of supply is probably the answer.

"There is another phase of this present-day philosophy that should startle us. In our present educational procedure -- which is essentially a skimming process -- we are robbing our rural and industrial population of their natural leaders. The bright boys and girls are educated and leave their people. They enter the

so-called higher vocations and professions. Their interests are now different from what they would be back home. They have new masters and, if they wish to succeed, they have to promote the interests of the classes which they serve. Thus they turn against their own flesh and blood and in many cases are the most bitter enemies of any movement calculated to give the people a chance to rise to the better life.

"5. Finding the way:

"If we find the social techniques by which the people can secure for themselves a new economic status, we will immediately remove the set of conditions that has so far debased the whole idea of education in the past. Economic liberation will also free the people spiritually. We therefore need a new kind of education that will give the people life where they are and through the callings in which they find themselves. It cannot be done in the old way. Something more than primary and secondary education of the old type is necessary to hold the rising generation. They will continue to run away as long as they do not find satisfying life at home. In fact, the more education of the old kind we give them, the more dissatisfied they will be and the more they will seek to escape. No scheme of education conceived in terms of a preparation for life is going to do the job. Children do not run society. Clearly, the techniques by which we can improve the social order and hold an educated generation of our youth must be achieved by the adult population. It is not only the short-cut but it is the only possible way that can be effective. This means, then, the necessity of finding a

scientific and effective technique by which all the adult people of our land can be mobilized in an adult education programme.

"This is what the Extension Department of St. Francis Xavier University started to do fifteen years ago. It tried to bring new life to all the people in whatever callings they were found through the only agency that democratic society knows as an instrument of progress -- education. There were many ways in which this might be done. Following the precedence of other institutions, we might have used correspondence courses and lecture courses, but we did not have the money to employ this method. This may have been fortunate because we found a more successful technique. We resorted to discussion groups. This was a method by which large numbers of people over a wide area could be inexpensively organized for enlightenment. The idea worked well, and today a very large proportion of the population of Maritime Canada are in one way or another participating in the movement.

IV. Why Cooperation?

"1. Individual and group action:

"We have already pointed out that education is the instrument of progress in a democracy. In a free society we can recognize no other force but the force of ideas. This will be readily admitted by all, but many wonder how on earth can economic cooperation come into a programme of adult education. The first great reason for this is that education gives life. If we break this idea of life down, we find that life for people in organized society is nothing other than the realization of human possibilities. There are five classes of these

possibilities, the physical, economic, social, cultural, and spiritual. Any people who rise high in the realization of their possibilities in these five categories and have symmetry in their development, will be a great people and will achieve a great civilization.

"It does not take much thought to realize that among these possibilities the economic, while not the highest in the order of dignity, is basic to all the others. Abject poverty prevents the realization of the other great objects of life. Consequently, no educator who is intent upon giving the good and abundant life to a people can dodge the economic issue. The possibilities of developing men economically are twofold: (1) men can improve their economic status by becoming individually efficient. Thus a farmer or fisherman can become a bigger and better operator. A worker can become a better worker and rise in his calling. The education that would make every man and woman in Canada personally efficient would go a long way to solving our problems. But this alone would not give the solution to the social problem. There are great forces, as the last depression so well proved, over which the individual has no control. So there must be a second way of economic improvement (2) through group action.

" . Rochdale:

"It was only a hundred years ago that the techniques by which the common people could work as groups for their economic betterment were developed. The great masses of the human race were never able to think out ways and means of facing their economic problems as groups. The Rochdale pioneers by some stroke of luck or genius fell upon this

technique. Since that time it has been proved that this technique will work out among all people in any kind of economic activity. When the St. F. X. Extension workers went out to the people, they pointed out to them the possibilities of economic betterment. They could not ignore, if they were to be scientific and honest, the possibilities of group action. To do so would be to betray the people. Naturally, there were many reasons why they might have kept silent on this point. It would arouse opposition from the vested interests; but to keep silent on this great human possibility would be to play Charlie McCarthy to the financial Bergens -- and that we were not prepared to do even at great risk to ourselves. Consequently the St. F. X. Extension Department came out boldly and taught the people that this great new possibility was open to them.

"3. Economic problems first:

"The second reason why economic cooperation should come into a programme of adult education for the masses of the people is psychological. It is a good and sound pedagogical principle that the interest of the learner is all-important. The common people will not long be interested in mere academic learning.. Their thinking must result in action if they are going to apply themselves in real earnest. To find this interest was the problem.

"Interest is aroused by needs. First among the great needs of the Maritime people was the economic. This is not to say that they were all poor; many groups in Eastern Canada have been as well off as people in any other part of the country. But in the post-war depression of the 1920's our industries were hard-hit and farmers and fishermen were

faced with terrific problems. They were selling in a world market and buying in a protected one, and the result was disastrous for them. This part of the country became the graveyard of industry. The depression of 1929 accentuated the bad conditions. In the year 1933, a 'low' in the depression period, the average income of the best-paid fishing community in Eastern Canada was only \$450. On the Canso coast it went down to \$175 and in other places it went as low as \$75 a year. Clearly, any educational programme that was to bring the people along the road of progress had to face these conditions. It had to put first things first. To start a programme of merely cultural education among such people would be to put the cart before the horse.

"4. The universality of cooperation:

"There is a third reason why the St. Francis Xavier Extension Department made economic cooperation part of its educational programme. Cooperation had a great record in other parts of the earth. It had spread from Rochdale, England, to every part of the globe. Millions of people with different religious, political or social ideas had found cooperation practical. This was true not only in the field of merchandising but in the fields of service as well. It had been demonstrated that any financial operation that could be carried on by private-profit business could be done in a cooperative way. As evidence of this, just before this war, seventy million people in thirty-nine different countries were members of a great variety of cooperative undertakings. The fact that this movement was propagated by the lower classes in society, those who had the least education and the lowest possible

economic status, is eloquent testimony to its practicability. The further fact that this was done in the face of vigorous opposition by the most highly educated and the best-off members of society proves that it is something that has universal appeal and is in harmony with the best instincts of man.

"Notwithstanding this great record of cooperation in other parts of the earth, the Canadian people and the people in North America generally never seemed to put much stock in it. This may have been due to ignorance, or it may have been due to the fact that they were so impressed with their own way of doing things that they passed it by. This continent is a land of big schemes and quick results. The people of North America are impatient with the slow evolution of even one big idea. This is a strange contradiction because, if there is one part of the earth where we have demonstrated that small things can become great, it is right here. Most of our great achievements in the economic world began modestly. Capitalism itself had a beginning in a very crude factory in England not so many years ago. If we ever go over to complete statism in this country, it will be due to our impatience to get things done quickly, to jump at all kinds of panaceas and untried theories. It has always been a mystery to us how we can pass by the challenge of cooperation. It has been tried and proved successful. It is big actually and potentially.

V. Cooperative Enterprises in the Maritimes

1. The Maritimes form a cooperative region:

"Undoubtedly the briefs presented to this Commission on the various phases of cooperation in Maritime Canada will

give a good idea of the achievements of the cooperative movement in this part of the world. Here, however, we would emphasize that cooperation cannot be an effective instrument of social and economic betterment unless the various phases of the movement are built together on an integrated pattern. To hold out to the people that any one phase of cooperation alone will solve their problems would be to delude them. The distinguishing characteristic of cooperation in the Maritimes is that it moves on all fronts. Furthermore, cooperation cannot be effective if confined to a small area of the country. Nova Scotian cooperatives cannot succeed in a real way unless they are linked with those in the other Maritime provinces. Even the Maritime provinces may be too small for the full exemplification of cooperation.

"2. The four fields of activity:

"Cooperative activities can be divided into four classes: 1) merchandising, 2) credit, 3) processing and marketing, and 4) services. Considerable success has been attained by the Maritime people in all these fields."

In Cape Breton and the eastern parts of Nova Scotia we made our greatest effort. We had only a little wooden village but we worked hard in that area and later the movement grew bigger and bigger -- an exemplification of that philosophy that if the people really study they will find the answers to their questions. In January 1933 we started the credit unions and there is over \$4,000,000 of assets now. At first we were all pretty scared that someone would run away with the money and I had my bags packed for six months, fearing it might not work. However, today it is \$4,000,000, though personally I think it ought

to be \$40,000,000. As a matter of fact, in the time of the depression we got bigger contributions than we are receiving in these luscious days. The white pins on the map will show you the stores. There were 123 when I left Antigonish, but there are not 123 societies because the British-Canadian has eight branches and Margaree has four branches.

MR. ARNASON: You are speaking of the three provinces?

THE WITNESS: Yes, the Maritime provinces. These stores are fed by the wholesale in Moncton. The black pins are the lobster factories. The blue pins on the north shore of New Brunswick are interesting, 85 per cent of the salt water smelts of North America come from that area. These blue pins are smelt organizations. The fish are caught in the winter and are a better marketing proposition than California oranges. Some of these people have bought a trading ship -- perhaps the first cooperative trading ship in this part of the world -- the people of Shippigan built their own freezer with ordinary Government subsidy, and the people in Yarmouth are now erecting a structure of their own to keep their lobsters in salt water. In the next three or four decades it is my conviction that Canada's greatest possibility for the development of the people will not lie in the industrial centres. I believe that we shall discover a technique by which we can develop thousands of little villages around the shores of the north country; if we can find a formula by which to remove some of the terrible disabilities under which our ancestors laboured when they pioneered Canada. I would say, put to one side all highfalutin social remedies like the Beveridge report and all such things. There is one asset we still

have in this country and that is the frontier, and the frontier is everywhere. We cannot go on as we have done in the last four or five decades and leave the fisherfolk hopeless without leadership, and certainly you cannot trade with paupers. We have been destroying good human material and failing to achieve the manifest destiny of this country. If we want to preserve our democracy and avoid Fascism we must first make our people physically strong and then put right ideas in their heads and give them the proper techniques and allow them to go to it.

Continuing:

"1) Merchandising:

"At the end of 1943, there were sixty retail co-operative stores in Nova Scotia with a membership of over 12,000. Their total volume of business was over \$4,000,000. We do not have exact figures for the other two Maritime provinces, but a rough estimate based on what reports we have would place the total business of consumer cooperative societies in this region at over \$6,000,000 in 1943. These retail organizations are supplied by a central cooperative wholesale at Moncton, with branches at Sydney and Antigonish, which did a business of about \$3,375,000 in 1943.

"2) Credit:

At the beginning of 1944, seventy thousand people in the Maritimes belonged to four hundred credit unions with assets of \$4,250,000. Since they were begun eleven years ago (the first was organized in Nova Scotia in 1933), these credit unions have loaned over \$13,000,000 to their members. In Nova Scotia alone, the loans amounted to \$3,000,000; and it is significant that this loan business was carried

on with a loss of only \$1,400.

"3) Processing and Marketing:

"One of the notable developments in Eastern Canada in the last decade or so has been the development of organized processing and marketing. The St. Francis Xavier Extension Department has worked with the Departments of Agriculture and Fisheries in promoting this kind of group action. The progress of the lobster fishermen is most worthy of note. A number of cooperative groups, owning their own lobster plants, have been doing an annual business of over \$1,500,000, and they are now the biggest producers of lobsters in the world. A large volume of cooperative business is also done in the processing and marketing of other fish, such as mackerel, smelts, cod, swordfish, oysters, and salmon. It is quite possible that in a few years the fishermen of Eastern Canada will process and market nearly all the fish in these varieties. This procedure has given the fishermen a greater share of the consumer's dollar. But it has done something more than this. It has given them a sense of mastery of their own fate; it has conditioned them to do other things and in a general way to rise to the full stature of citizenship.

"4) Services:

"In addition to the purely economic activities, there is a growing cooperative movement in the field of services. This is manifesting itself principally in housing and health. Already six groups of industrial workers in Nova Scotia have completed housing projects and the seventh has begun. Other groups interested in housing are still in the study-club stage. The homes built by these cooperative groups are inexpensive, yet modern and convenient. Seventy-five

per cent of the money required for their construction has been loaned by Government agencies. The success achieved by these first ventures in cooperative housing is stimulating the imagination of all the people and may well lead us to a great re-housing movement.

"Another noteworthy achievement outside the economic field, which was organized by members of the Extension Department, is group hospitalization. The plan now operating in the Maritimes is sponsored by the Maritime Hospital Association. With headquarters in Moncton, the Association has (February 1, 1945) 29,390 subscribers, who, by paying a monthly fee of \$1.00 or \$1.50 -- depending on the type of service desired -- are given hospital care for themselves and the members of their families. The number of individuals receiving protection under this plan was 75,376 on February 1, 1945.

"3. An integrated plan:

"It is interesting to note the integrated structure of our movement in the Maritimes. In a previous section we stated that participation in one phase of cooperation alone would not solve the economic ills of our people. Similarly, to receive the full benefit of the whole movement, an individual becomes a member of two or more cooperative groups. For example, a fisherman may be a member of a cooperative store, a credit union and a cooperative fish plant. Through his store he has part ownership in the Maritime wholesale; through the credit union he belongs to a regional chapter, a provincial league, and a national organization; through the fish plant he becomes a member of the Maritime federation, the U.M.F. This structure gives the participant a sense of something more than mere local activity. He is part of a movement

that comprises not only men of his own particular vocation, but people in every other occupational group. With them, through joint cooperative activity, he moves toward a common objective. Thus the movement, while it begins with the vocational groups, finally transcends them and becomes a great unifying social force.

VI. Cooperation and Anglo-Saxon Democracy

"1. The right to organize:

"The right of free association is a fundamental of Anglo-Saxon democracy. As long as people keep within the law, they can do anything that they think good for their own development. This is one of the great freedoms, and surely the right to form mutual self-help associations in the economic field is one of them. Louis Mumford, in his book 'Faith for Living', defines democracy as a society which permits mutual self-help associations. If the state or any other powerful aggregation of men in society blocks such action on the part of the people, then true democracy no longer exists. Business men claim the right for themselves to form joint stock companies and corporations for the prosecution of business. To deny the common people the right to do the same thing through co-operative techniques, would be to deny their own fundamental first principles.

"But it may be urged that the people who are now in business have a vested right and that it is unjust for the people at this stage to engage in cooperative activities. We answer that our forefathers never signed away the right of their posterity to go into business for themselves. Furthermore, any man going into private-profit business takes the risk that some day he may be eliminated from his

particular type of enterprise. This can come about for many reasons. One of the most common is technological progress. At one time in North America the shay-makers had a flourishing business, but with the advent of automobiles they were driven out. We cannot say that this is injustice; it is progress. The human race is not going to forego its right to new things because of the vested interests of the men engaged in these old-line businesses. In the same way in the economic field changes can come about that will upset the old order of things. Cooperation is just one of these changes. The world has passed through many stages of economic organization from slavery through feudalism up to modern finance capitalism. Business men cannot count on an unchanging economic world. They take that risk when they engage in business operations.

"Thus it is no argument to say that cooperation might put good Canadians out of business. Cooperation is a technique by which all the people can get into business, and this is something new in the world. It is a new good thing. There is no doubt but that business makes men, not only economically but socially and spiritually as well. To those who urge this argument we would say that cooperation, even if it does put some Canadians out of business, puts other good Canadians in their place. This is in harmony with our fundamental democratic principles. We believe in the greatest good to the greatest number.

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"2. Equal opportunities in cooperation:

"It must be remembered too that old-line business is also putting men out of business, if we mean by this phrase out of the ownership of business. All our modern big businesses have destroyed little business. The chance for a man today to get into business is not the same as it was years ago. He cannot aspire to the ownership of big business, but he can aspire to be an executive in one of our great corporations. He may start as a clerk at the bottom and rise to be general manager. That seems to be satisfying to even our most ambitious young business men. In many cases the financial remuneration is great. In fact in the modern world a new class of business man has come into the picture -- the managerial class. They don't necessarily aspire to own the business in which they work, and yet they feel that they are real business men. Now, if the cooperative movement grew to large proportions, it would hold out the same hope to our business men. There would be this great difference, however, that the high executives in a huge cooperative business would have the consciousness and the satisfaction that they were engaged in an enterprise that had the greatest possible social significance."

There has been a great deal of loose talk by both cooperators and non-cooperators about the old line business as private business, as much as to say that cooperation is not private business; and people have talked about profit and the profit motive. The air has been full of it and even cooperators do not express themselves with exact terminology. This section is put in to clarify thought in this regard.

Continuing:

"VII. Co-operatives Are Private Enterprise

"Furthermore, cooperation is in keeping with the type of business that we have had for the last 150 years. It works within the framework of the present system of finance capitalism. It too is private enterprise, upon which so much stress is laid today. The opponents of cooperation are anxious to bracket off cooperation from private enterprise as if the former were the antithesis of the latter. This is a misuse of words, in some cases due to ignorance and in some cases malice. The only public business is state-owned business, and cooperation is definitely not state-owned. It is collectivist to be sure, but so is every modern corporation from the simplest chain store to the C. P. R. The techniques of running a cooperative business are exactly the same as those of a corporation. It gives to the masses of the people the same intriguing lure for private enterprise that the joint stock company or corporation gives to old-line profit business. The real distinction between cooperation and old-line business is that cooperation is private non-profit business and the latter is private profit business.

"VIII. Co-operation and Monopolies

"Modern business in all fields is tending toward monopolistic capitalism. This is not in harmony with the traditions of Anglo-Saxon democracy. It smacks of Fascism. Cooperation, on the other hand, distributes wealth and puts in the hands of the people a powerful instrument against the assaults of monopoly. Reason would dictate this; and the experience of countries that have employed cooperation proves the truth of it. Sweden, for example, has no anti-trust laws; but its basic economy

is cooperative, and it has been extremely effective in controlling and breaking monopolies.

"But it will be urged that cooperation itself is monopolistic. The general idea of monopoly is that it is big; but this is not necessarily true. A monopoly might be comparatively small. A few men, for instance, could get hold of certain precious and necessary metals and tie up the whole world, and this has actually happened. But even bigness need not be monopoly in the bad sense. It depends upon who owns the monopoly. A monopoly owned by all the people of Canada is not a monopoly in any bad sense. Let us look at cooperation. Suppose that consumer cooperation grew in Canada to the point where it handled all of our consumer goods. There is no chance that any bad results would come from this. The people are not going to exploit themselves. It is a fundamental principle of cooperation that the selling price of the article makes no difference to the cooperative buyer. Thus a patron of a cooperative store may pay \$50 for a \$5 pair of shoes and \$25 for a bag of flour, but it would make no difference to him. If his cooperative is a real cooperative, the merchandising costs just so much and all the rest goes back to him in patronage dividends. This would be a foolish procedure, of course, but the example shows that there is no chance of exploiting the public in consumer cooperatives.

"Let us look at producer cooperatives. Here there might be a possibility of the producers of a given commodity, say wheat or meat, cornering all the product and then trying to exploit the public. There is less likelihood of this happening in a cooperative economy than in the

old-line capitalistic set-up. First of all, the city consumers are linked with the primary producers in their consumer wholesale organizations. In this tie-up there would be a powerful influence against any such procedure. Then again, organized consumers can always hold over primary producers the threat that they themselves can go back into production. As a matter of fact, this is precisely what the Rochdale Pioneers intended to do.

"IX. Co-operation as a Social Philosophy

"This double programme of individual private ownership and group private ownership meets the great threat of the day -- totalitarianism of the right or left. We can illustrate this by an example. Let us suppose that in Maritime Canada the cooperative movement grew to such proportions that there would be a cooperative store in every community. Let us suppose also that on the production and the fishermen, for example, owned all the lobster factories and completely handled this great commodity. Furthermore, if the cooperative movement grew, the people would perfect their credit institutions to take care of the financing of all these activities. Let us suppose further, for the sake of argument, that Canada suddenly goes revolutionary and some form of statism comes into being. What would be the reaction of the people in this situation? They would naturally say to the state, "These are our institutions and we are not giving up." If this kind of cooperation could become widespread across Canada, it would immunize this country forever against any form of totalitarian statism.

"Moreover, the very fact that the people would own co-operative institutions, that would minister to a great share of their human needs, would make it impossible for the

state ever to interfere with them. They are the state, in the last analysis, and no people will do things against their own interests. Thus, cooperation is a buffer between the individual and the omnipotent state. It is the last great democratic obstacle in the way of complete statism. Business men should not only permit it to come into being, but they should help the people to form cooperatives just to save themselves. It would not take very much cooperative business to stabilize Canada. Just enough cooperative business to destroy proletarianism, whether in the city or in the country, would do it. Give them a stake in the country and a sense of ownership and they will not want sudden and revolutionary change. Even if the Canadian people got twenty-five per cent of Canada's business and that part of the business which lies close to their subsistence living, there would be left a great field for the entrepreneur, the trail-blazer, and the private-profit business man. If through cooperation we can life the masses of the common people to a new economic level, then the part of Canadian business that remains would be worth more to the private-profit business man than the whole of business is today. Thus the good society of the future should be a mixed society. This means four kinds of ownership: 1) individual ownership of homes, farms, and vocational equipment; 2) a large measure of cooperative ownership; 3) some state and municipal ownership in the things that are in the nature of public utilities; and 4) an indefinite and expanding field for private-profit enterprise.

"X. Co-operation the Very Essence of
Democracy

"Democracy, according to the definition of the immortal

Lincoln, is rule of, by, and for the people. It is not the rule of one man, one clique of men, or any particular class. The minimum essentials of democracy are freedom of assembly, freedom of conscience, freedom of speech, and freedom to join mutual self-help associations. It matters not how oppressed a people may be economically or politically, as long as they have these basic freedoms they have the instruments to free themselves. It is well known that democracy as we have it is not perfect and that the people do not rule in a complete manner. Nevertheless, the freedom which the people now have is worth maintaining and indeed worth dying for. Such freedom should also be worth living for, especially in view of its possible significance for mankind.

"In its full and complete significance the idea of democracy is participation by the people in all the vital and important social processes. These processes, when broken down into the concrete, are the economic, political, and cultural forces that are to be found everywhere. In a democratic society the control of these processes is not the privilege of any one class, but of the people as a whole. It isn't enough that the people participate in one of them, or even some of them. Neither is it sufficient that this participation be partial or grudgingly allowed to them. Thus it follows that economic group action is implicit in the very idea of democracy; and cooperation aims to realize this democracy by placing the country and its economic forces in the hands of our own people. If there is any virtue, therefore, in our democratic ideals and principles, it must be agreed that cooperatives promote the common good. This is the real test of a democratic movement.

"A hundred and fifty years ago political democracy was the great aim of the people. It was through that, if men were masters in the political realm, all would be well. Experience in this regard has been disappointing, particularly since the advent of technology, the concentration of wealth, and the powerful growth of financial groups. Owing to the intimate connection between economic control and political participation, political freedom is to a large extent nullified today. Domination in the economic field has meant control over the other fields of social activity. Those who control the financial processes of the nation will also rule the political state. Thus if the people want equality of opportunity and full participation in the democratic society they must improve their economic status. They must develop themselves intellectually and acquire economic prestige in the only way open to them -- group action or cooperation. If democracy is to endure and grow to fulness, people of all classes must realize this fundamental truth.

"XI. Can It Be Done?"

"It may be urged that our concept of democracy is too visionary, that it cannot be done. The opponents of participation by the people in the economic processes are strong in this argument. With them the wish is perhaps father to the thought. The people themselves are likely to be impressed by such talk and take a defeatist attitude. This is to deny the whole idea of democracy. We ask the Canadian people to run the biggest business in Canada, the political state, and then in the same breath declare that they are incompetent to run their own grocery stores! If they are unable to own and operate the economic

institutions that lie close to them and which are vital to their very subsistence, then democracy will be impossible.

"Running their own business is really not so difficult for the people as it may seem. The people do not need to know all the technicalities of big business and finance to get control of their economic destiny. An outstanding fact in the history of North America is that from the ranks of the common people arose men who without any education built up for themselves great economic empires. Henry Ford was not a graduate in economics from any university, but he had ability and used that ability to obtain ownership of a great industry. When he succeeded in doing this, he had at his disposal all the experts, technicians and executives that would carry on his industrial empire. In a similar way, the people can, through group action, get possession of a large share of the economic institutions.

"XII. Spiritual Values

"1. Co-operation is more than business.

"Economic cooperation is a technique by which men have discovered how to carry on business without taking any toll from their fellows. It is thus the ultimate in justice. But it is more than this. It is an organization of world society that permits charity and the practice of mercy, for the performance of which the Divine Master promised eternal life. We have enough illustrations, even in our little experience here in Eastern Canada, to demonstrate this.

"When the trans-Canada Highway was being built in Cape Breton, there was a young man at Johnstown, Richmond County, who wanted to buy a truck to work on the road. He needed an extra \$500; he went to his credit union and

borrowed it. He was only working a short time when it was discovered that he had T. B. He was sent to the sanitorium. The spiritual value of the credit union immediately emerged. Its directors took over the truck, hired a driver, and worked the truck for the sick man. They paid off his debt to the credit union and then kept on working the truck to pay his expenses. It did not cost the members of the Johnstown Credit Union a cent. Here was society organized in a Christian way. No such thing would be likely in individualistic society.

"All the other types of cooperatives have similar spiritual significance. They are the channels through which Christianity can operate in the world. There is no denying that in most communities of the North American continent we have great preachers and teachers. We have every type of social, moral, and educational institution that could minister to human welfare. Notwithstanding this, we still have graft, corruption, and sin. There are millions of men and women who would like to put an end to this, but they have no economic and social institutions that will channelize their goodness and make it work for society as a whole. There are not enough preachers and teachers in North America to clean up the moral mess into which many of our cities have fallen, unless a just and fair economic basis is established. Universal cooperation would go a long way to create that set of social circumstances that would make society safe for sanctity.

"2. Co-operation a force for brotherhood.

"Another great spiritual value of cooperation is that it gives the people of the nation a sense of togetherness. It gives unity of thought and action. This is particularly

important for Canada. We are a mosaic of peoples. We have many religious creeds. This diversity might easily be an obstacle to our progress. Religious and racial bigotry may divert us from our true goal and dissipate our energies. Canada needs, above everything else, a new synthesis. We need new and larger loyalties. We need an over-all philosophy that will unite us in common action. Cooperation is ominently fitted to do this. Right here in Maritime Canada, French and English, Protestant and Catholic, and adherents of all political parties are today working together in huge numbers to carry on in a friendly way the business activities of their lives.

"It has been said that nature is rod in tooth and claw. This is the philosophy of the survival of the fittest, but it is fundamentally erroneous. Cooperation, more than competition, is the chief factor in survival. Nature at its best is cooperative. We see it in the human family, the primary unit of society. Here the natural instincts of man come out. Mutuality is the characteristic of this group. The father and mother, brothers and sisters are not guilty of gouging, chiselling, and exploiting one another. Here we see exemplified the principle of all for each and each for all. This is human nature instinctively at work. Moreover, we see charity; the black sheep of the flock, the wayward son who dissipates his time and energy, is not looked upon with cynicism and hatred. They are not proud of him, but they don't hate him; in fact, they sometimes love him all the more.

"Can we extend this characteristic, so well exemplified in the family, to the whole nation? Cooperative mutual self-help associations both in the economic and social

field do just this. The whole community is made a family. All the communities, through cooperation, can make the nation a family. Cooperative nations can make the world a family. There is here the germ of universal peace. Until this foundation is laid for peace, there is not much hope for the future."

THE CHAIRMAN: May I say for myself, Dr. Coady, that I am profoundly interested in your powerful essay on "The Social Significance of the Co-operative Movement."

THE WITNESS: Thank you.

BY MR. PARKER:

Q. There are only one or two questions at most that I should like to ask you, Dr. Coad. They suggest themselves to me as a result of some of the things that are set out on page twenty-six. But before I ask you any questions, I wonder if you would be good enough to tell me this. Are the Extension Department of the University and the University itself one and the same thing so far as this document is concerned? Does this represent the considered views of the University of St. Francis Xavier? A. Yes. I have brought two exhibits that I will hand in with my signed brief.

Q. You do not draw a distinction between the Extension Department and the University proper?

A. No. It is like a scientific department, but I have a letter from the President testifying that the faculty and the Governors know that we promote cooperative activities and approve of it, and I have also a resolution signed by the President, the Vice-President and the leading professors in the social sciences, who would be the most interested in this type of work. They have read the brief and approve of it.

Q. Then this represents the considered views of the entire university on these matters. That being so, will you turn to page twenty-six. Perhaps you can explain it a little more clearly to me. Your argument is, first, that the cooperative movement is an excellent thing for our society as it exists in this province or in this country today, and you also imply that there is a danger, either proximate or remote, of what you call statism becoming effective in Canada? A. Yes.

Q. And further, that the existence and maintenance of this cooperative movement is "the last great democratic obstacle in the way of complete statism." To put it another way, does that mean that you consider the cooperative movement to be the last safeguard against threatened statism? Is that a fair way to put it? A. Yes.

Q. And therefore it is wise to foster the cooperative movement in order to prevent what you consider a dangerous thing, namely, statism. Is that putting it fairly?

A. That is right.

Q. Do you carry your argument to this extent, that the cooperative movement -- I say this in a kindly way -- should be nourished or tended by our public authorities, that it should receive favourable treatment in the matter of taxation so that it may maintain its existence and continue its usefulness as a barrier against the threat of statism?

A. I do not think it should receive special favours but it should receive equal treatment with any other kind of business. The exemptions given it so far -- and this is true not only of Canada but of the United States and the rest of the world -- must have been granted for some reason.

The Parliaments that gave these exemptions must have had some reason for doing it. When it is said that our co-operatives get special privileges, do not all classes of business enjoy special privileges? What is the tariff on automobiles, for instance? We all know what a high tariff there is on automobiles and the consumer has to pay it. For what purpose? To develop the automobile business. Every tariff or trade agreement favourable to business is a special privilege. I would not want you to get the idea, however, that in our opinion cooperatives need babying or that they should get something to which they are not justly entitled.

Q. I do not want to get into the realm of tariff discussion; that might take too long. I simply want to hold the question to this point, whether it is your view that on this question of taxation, the question which this Commission has been appointed to advise upon, the co-operative associations as we know them are of such value to the community or are of such a nature that the Parliament of Canada should enact special exemption provisions in the income tax law in order to relieve these associations from payment on any income they may have, in contrast with the old line companies who have to pay corporate income tax. May I have your views on that? A. With all respect, I do not agree that that is the principal argument. The principal argument for avoiding the payment of income tax is that they have no income. In the second place, if the legislature wants to tax them, that is all right; how much they should tax them is not for me to say; but they should take into consideration all the factors that I have set out in this statement of mine when applying the law, just as

they take into consideration the necessity of helping incipient old line businesses, and other enterprises like the Dominion Steel Company. The Dominion Government poured millions of money into that.

Q. I have heard that alleged as special treatment.

A. I agree that for various reasons, economic and otherwise, the country's legislators may have acted wisely in these matters, but I say that in the case we are discussing here they should also take all the factors into account.

Q. Do you carry the argument to this conclusion; that so far as the exemption from income tax of cooperative associations is concerned, whether you think that they should be treated any differently by reason of all these things that you have discussed, at any rate they should be treated more leniently than the ordinary non-cooperative company? A. The fact is that they have been exempted in the past and I take it that the Governments of Canada that passed this legislation knew what they were doing and did it after thorough discussion of the subject, and there is no reason I can see why we should have it changed.

THE CHAIRMAN: The question is this. There is a certain exemption now in existence. Do you find it justified?

THE WITNESS: Yes.

BY MR. PARKER:

Q. I take it the cooperatives are relying on the assumption or the claim that they have no income to be taxed? A. Yes.

Q. That is the first point; and secondly, if you should be wrong in that, and if it is decided in the eyes of the law that they have income, you think that income should not

bear the same tax as ordinary companies pay, and possibly no tax, by reason of all the benefits you say they distribute to society. That is your position? A. Yes.

BY MR. ARNASON:

Q. I want to ask one question. I think you have dealt with it by inference. In your discussion of cooperation as forming a part of private enterprise, would you say that one of the main objectives of organized cooperation was to maintain and increase, if possible, property in the hands of the individual member of the cooperative? A. Certainly. I claim philosophically that cooperation or group action of this kind will give the greatest measure of individuality that is possible in modern society, and the greatest measure of personal energy and initiative.

Q. One other question. I was interested in your discussion of certain trends, or what you refer to as certain trends in education. I took it that you felt that certain types of educational methods were tending, if I may use a rather homely expression, to educate the people away from their present occupations. I take it that you have no objection to a system of education that encourages people to move away from their community, the place in which they were born, if they can better themselves elsewhere. But I was wondering whether what you were driving at was that there was a certain tendency to give people the sort of education that would drive them into the cities and into other areas where there were no better opportunities for them? A. That is right. That is one thing. For example, I think it is certainly true that in the two big cities of Canada we have one fifth or one sixth of the population because people foolishly rushed into those centres. We are

really responsible for that because our whole teaching has been urban. A boy is born on a farm and is fitted by nature, or by the gifts of God, to be a judge of the Supreme Court of Canada, or a great engineer or a statesman. Most assuredly he should get the opportunity to fulfil his manifest destiny to do the things he was intended for. But he should not leave the farm with the idea that he is going to secure a judgeship because it is a good job in the economic sense. I do not mean to convey the slightest reflection in that remark. I know quite well that judges are not paid in proportion to other classes we can think of; nor, on the other hand, are they paid in terms of their ability. And what about our clergymen? The economic reason is not, or should not be, the dominant reason in either case. My point is that men should be given the opportunity to do what we cannot help thinking, from the evidence we see of their gifts and their character, they were intended to do. But we have done the very opposite through our ideas of education. We have taught boys to follow the maxim -- go to school and get the right education and you will get the good jobs. We forget that there is not room at the top for everybody in the community.

MR. ELLIOTT: I was a little worried about this sentence on page two of your brief: "Your Commission will decide if the cooperative method of business is to receive full recognition before the law and if it is to be permitted to operate untrammelled in carrying out the programme which it has designed for the uplifting of the great masses of the people." You realize of course that this Commission has no power to decide anything?

THE WITNESS: Yes. I have no hesitation in saying that

certain interests have been fighting us for a good many years. A businessman named Knott wrote some articles three years ago in which he called upon Canadian business to do something about it, and the general feeling in the country is that there is a struggle between this way of doing business and the other. I think that if the situation were properly understood we could compose our differences.

MR. ELLIOTT: You realize that the Commission's recommendations must be related specifically to taxation?

THE WITNESS: Yes; I know that.

MR. PARKER: So far as I know, that concludes our business in Halifax.

THE CHAIRMAN: I think I should express the thanks of the Commission at this closing of the first phase of our work for the cooperation that has been shown throughout between our own Counsel and other Counsel who have appeared before us.

The Commission thereupon adjourned to meet in Ottawa on Monday, April 9, at 10.00 a.m.

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Canada Co-operative, Royal Commission

ROYAL COMMISSION
ON
CO-OPERATIVES

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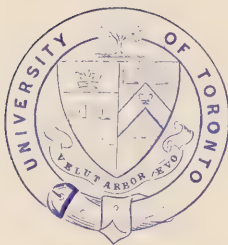


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ROYAL COMMISSION ON CO-OPERATIVES

Ottawa, Ontario, Monday, April 9, 1945

VOLUME XIII

(Pages 5000 - 5120)

<u>C O N T E N T S</u>	<u>Page</u>
Prince Rupert Fishermen's Co-operative Association (Fishermen's Co-operative Federation of British Columbia)	
John Deane, General Manager (brief)	5013-5023
Examined by Mr. Francis	5108-5011
Mr. Parker	5038
Mr. Locke	5072
United Farmers Co-operative Company Limited	
William A. Amos, Vice-President (brief)	5115
Examined by Mr. Francis	5114

<u>E X H I B I T S</u>	
1944 Statement, Prince Rupert Co-operative Fishermen's Association	5042
Agreement between fishermen and Prince Rupert Co-operative Fishermen's Association	5052
Income tax correspondence, Prince Rupert Co- operative Fishermen's Association	5056
Financial Reports for other than 1944, Prince Rupert Co-operative Fishermen's Association	5072
Purchase Savings Certificate, Prince Rupert Co-operative Fishermen's Association	5103
Kyuquot Trollers Co-operative Association balance sheet	5104

(Page 5006 follows)

ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, Ontario, on Monday, April 9, 1945.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman.

B. N. ARNASON)	
G. A. ELLIOTT)	
J. M. NADEAU)	Commissioners
J. J. VAUGHAN)	

Eugene T. Parker, K.C. Counsel

Major H.D.Woods)	Associate
J.A.Chapdelaine)	Registrars

Colonel G. W. Ross Executive Secretary

APPEARANCES:

W. B. Francis	Ten Co-operative Associations
G. C. Nowlan	United Fruit Companies of Nova Scotia
C. H. Locke, K.C.	Fourteen Independent Fisheries
W. H. Howard, K.C.	Private Grain Interests
W. P. Fillmore, K.C.	Private Grain Interests

Ottawa, Ontario.
April 9, 1945.

The Commission met at 10.30 a.m., Mr. Justice McDougall presiding.

THE CHAIRMAN: Gentlemen, as we resume our operations after a break I think it is only fitting that I should greet those familiar faces that I see here and also welcome those that are here for the first time. I think it is hardly necessary to read the terms of reference, as this has already been done on several occasions. I may say that we have divided the remaining work into three classes. This week will be devoted to the general cases which could not be heard at various points; next week will be devoted to the insurance cases, and the last week to the grain trade; and I suppose at the end there will be some cases that have not previously been able to go on. Are there any fresh appearances to-day?

MR. FRANCIS: My Lord, I have been asked to speak to you on behalf of a group of co-operatives with head offices in the United States but which have members in Canada.

THE CHAIRMAN: What is the name of the group?

MR. FRANCIS: There is to be a joint submission on behalf of National Co-operatives Incorporated, National Farm Machinery Incorporated and International Lumbering Company.

MR. PARKER: No. 66 on the file.

MR. FRANCIS: I have received a telegram from Mr. John S. Grimes, of Indianapolis, who is appearing for these people, and he reports that he is unable to be present at Ottawa until April 23. He asked me to

speak to the matter this morning. If it is agreeable to the Commission I should like to speak to this a little later in the week, after I have had an opportunity to confer with my friend Mr. Parker. Mr. Grimes received a wire from the Commission asking him to appear this morning, and I am merely speaking on his behalf at this time.

THE CHAIRMAN: Mark it as suspended, in the meantime.

MR. FRANCIS: I have also been asked to speak to the submission of the Associated Growers of British Columbia. Mr. R. H. Milliken, K.C., is counsel for the Association, but he is unable to be present to-day and he asked me to request the Commission if it would kindly put this matter over until to-morrow morning.

THE CHAIRMAN: There is no difficulty about that, is there, Mr. Parker?

MR. PARKER: No difficulty, provided we have other briefs to occupy us to-day.

THE CHAIRMAN: Have you other briefs to go on with, Mr. Francis?

MR. FRANCIS: Subject to the approval of my friend Mr. Locke, I am prepared to go on with the briefs of the Prince Rupert Fishermen's Co-operative Association and the United Farmers Co-operative Company Limited. I should think they would take the day.

There is one other statement I should like to make. A brief has been filed on behalf of the Canadian Co-operative Wool Growers Limited, which is a national organization, incorporated under the Dominion Companies Act. It is an old organization and well known. The brief that has been filed is very clear and it is not considered necessary to take up the time of the Commission by making a formal

appearance, unless the Commission so desires. If the Commission would like to have this brief supported by the Manager or General Manager, arrangements will be made to have a personal appearance.

THE CHAIRMAN: Are they easily available? Where is the head office?

MR. FRANCIS: Toronto. I do not know that there is anything controversial with regard to the Wool Growers' brief.

THE CHAIRMAN: You might discuss it with Mr. Parker and decide whether it will be necessary to have the brief supported.

MR. PARKER: Mr. Francis spoke to me about it this morning. It is the same old story that we have met with before. If the Wool Growers make certain statements of fact that are unverified they will not have as much weight as if they were verified.

MR. FRANCIS: I have been arguing that for several weeks. I take it that it would be in the interests of the Wool Growers to have their brief supported by a witness.

THE CHAIRMAN: I should think so, yes.

MR. PARKER: Mr. Chairman, that seems to take care of the preliminaries, and I suggest that we proceed now with the brief of the Prince Rupert Fishermen's Co-operative Association, No. 43 on the list. The Commissioners will recall that at our opening sessions in Vancouver Mr. Locke, on behalf of certain independent fisheries, filed a brief, in which he made certain references to the Prince Rupert Fishermen's Co-operative Association and also to the Kyuquot Trollers Co-operative Association, and filed

certain documents with respect to the affairs of these two Associations. Mr. Locke is here this morning, and I understand he has had an opportunity of perusing the brief now to be presented on behalf of the Prince Rupert Co-operative.

MR. LOCKE: Yes, thank you, I have seen it. I got it last week.

MR. PARKER: If my friend Mr. Francis feels that no good purpose would be served by having the brief read, perhaps we could proceed to examine the witness. Of course, there may be other interests present who have not seen the brief and would like to have it read. I am merely making a suggestion for the sake of saving time.

THE CHAIRMAN: Are you prepared to examine on this brief without its being read?

MR. PARKER: I would much prefer to have it read, but I must confess I am rather depending on Mr. Locke to conduct a good part of the examination in this case.

THE CHAIRMAN: I think Mr. Francis wants it read.

MR. NOWLAN: Mr. Chairman, with regard to the United Fruit Companies case, I suggested to my friends, Mr. Parker and Mr. Francis that it might be heard in conjunction with the case of the Associated Growers of British Columbia. I think both cases could probably be included in the one day.

THE CHAIRMAN: Mr. Francis, do you desire to have the brief of the Prince Rupert Fishermen's Co-operative Association read?

MR. FRANCIS: I believe it would save time to have it read, Mr. Chairman.

THE CHAIRMAN: It is not very long. I think we had better have it read, as usual.

JOHN DEANE,

General Manager,
Fishermen's Co-operative
Federation of British Columbia,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. Mr. Deane, what is your present position?

A. General Manager of the Fishermen's Co-operative
Federation of British Columbia.

Q. How long have you held that position? A. Since
January 1, 1945.

Q. Previous to that time what position did you
hold? A. General Manager of the Prince Rupert
Fishermen's Co-operative Association.

Q. What was your occupation for many years? A. I
was a fisherman since 1921.

Q. For how many years were you actually engaged in
the fishing industry as a fisherman? A. From 1921 until
1936, both years inclusive.

Q. How old were you when you entered the fishing
industry as a fisherman? A. Fourteen.

Q. And subsequent to that time, I understand, you did
get some education? A. Yes, I had a high school
education.

Q. What was your first connection with the Prince
Rupert Fishermen's Co-operative Association? A. I was
a charter member of that Association in 1931, when it
was formed.

Q. Were you ever a director of the Association?
A. Yes, I was a director from 1931 until 1941.

Q. When were you first appointed manager?
A. 1937, in the spring of 1937.

Q. Did you continue to be Manager until 1944?

A. That is correct, yes.

Q. Except for the last three years, when you were General Manager? A. That is right.

Q. I understand you are a member of the Fisheries Research Board of Canada? A. That is correct.

Q. What do you represent on the Board? A. I am one of the representatives of the fishing industry on the Pacific Coast. There are two representatives of the industry from the Pacific Coast on that Board.

Q. For how many years is the appointment made?

A. I understand it is for five years.

Q. As to the brief that you have filed with the Commission and which you are now about to read, was it approved by the Board of Directors of the Prince Rupert Fishermen's Co-operative Association? A. That is correct.

Q. Were you authorized to present the brief to this Commission? A. Yes.

MR. FRANCIS: Before proceeding, my Lord, there are two slight corrections that I should like to have made in the brief. On page 2 of the copies which the Commissioners have there is a paragraph commencing "In respect to the salmon trollers," and after the words "ownership in the industry," in the seventh line, the remaining words in that sentence should be stricken out, namely, the words "and being kept in debt is not free, has no responsibility and therefore takes no interest."

Then on page 4 there is a paragraph commencing "The policy followed by the fishing companies of Prince Rupert in paying a small price for salmon", and the

seven words immediately following that, namely, "because of their monopoly in the fisheries", should be stricken out.

BY MR. FRANCIS:

Q. Mr. Deane, will you now proceed to read the brief? A. This brief is a submission to the Royal Commission on Taxation of Co-operatives, at Ottawa. It reads as follows:

"Gentlemen:

The following will deal briefly with the history and successful co-operation among the fishermen of British Columbia, and more particularly with the operations of the Prince Rupert Fishermen's Co-operative Association especially in respect to Income Tax.

Previous to the incorporation of the Prince Rupert Fishermen's Co-operative Association and the Kyuquot Trollers Co-operative Association in 1931, the fishing industry of British Columbia, the States of Washington and Oregon, and Alaska experienced quite a few unsuccessful attempts at organizing and operating fishermen's co-operatives. Most of these failures can be attributed to the lack of understanding of co-operative principles by the membership, which resulted in wrong setups and operations.

Where a common problem faces humanity, those people so affected naturally co-operate to supply their biological needs. We see illustrations all around us, such as conditions of fire, earthquake, flood, war, settling in a new country, etc. Within our economy forces are continually at work which sooner or later bring about a crisis. If people are not economically free to cope with these conditions a

crisis is reached, sometimes as serious as a revolution, but in democratic countries where the people have freedom of expression and action along lines of reorganization to overcome such conditions, the crisis can be avoided by a solution of the problem.

In 1929 our financial economy broke down, and the price of fish fell below a living standard for the fishermen in the early 1930's. Red salmon, in the 1920's ranging in price between 12¢ and 15¢ per pound to the fishermen, dropped to 4¢ in 1931; and halibut which was about the same price as salmon in the 1920's dropped to 2¢ per pound. A crisis was reached where the fishermen faced starvation and loss of their vessels.

It is worth noting the reactions of the various branches of the industry to the crisis. Where the fishing populations did not own their boats and gear and were in debt to the operators there was no basis for them to cope with the problem. We find this situation mainly in the canning industry.

At one time the halibut fleet was almost entirely owned by the various fishing companies. To-day there is a mixture of company-owned vessels, ownership as an investment by persons not connected with the fisheries, ownership by outfitting stores, and ownership by fishermen themselves.

In respect to the salmon trollers, each fisherman owns and operates his own vessel, is usually not in debt and if so, in most cases, does not allow such debt to influence the sale of his product. In the salmon troller we have a citizen who is free, is an owner in the fishing industry, and takes a responsibility in operating such industry. On the other

hand, in the canned salmon industry the fisherman in most cases does not have an ownership in the industry. The same condition exists in the halibut industry, but certainly not to such an extent. For a co-operative to succeed its members first must be free of debt, they must have ownership in order to assume a responsibility, and it is for this reason that co-operatives have become successful among the salmon trollers, and have failed in other branches of the industry.

Price of fish was not the only condition responsible for the organization of fishermen's co-operatives, other conditions listed as follows were also factors:

- (1) The food and gear service on the fishing grounds supplied by the various fishing companies was exceedingly bad and high priced.
- (2) The fish packing service was very inadequate, as soon as a run of fish appeared packers were loaded, and the fleet had to tie up until the packers returned.
- (3) The quality of fish produced was extremely poor, the fishermen did not properly clean nor look after them, and the fish packers were in the main not very particular either. The fishing companies could not very well set standards of quality, if they graded a fisherman's poor quality fish he would take his whole catch to a competing company.
- (4) The Canadian fishermen had a very poor under-powered fleet and fished mostly along the beaches, while the United States fleet from Washington, Oregon, and Alaska with better

vessels and equipment fished the schools of salmon off shore in Dixon Entrance, Hecate Straits, and the west coast of Vancouver Island, taking the major portion of the salmon run.

The fishermen's co-operatives have changed all this, to-day they maintain fishing camps on every ground with frequent service, giving the fishing fleet the same service, quality and price of goods as can be obtained at the large fishing ports. They own and operate sufficient large fast diesel packers which take care of all production, and there is never a time that the fleet need stop fishing. With the fishermen handling their own fish through co-operatives they have put in strict rules on the care and handling of fish, with the result of a high-class quality production which has earned a very favourable record throughout all markets.

About the year 1934 the Canadian salmon trolling fleet began to grow, and larger and more powerful vessels with up-to-date fishing equipment replaced the old under-powered vessels. This growth steadily increased until the commencement of the present war, and resulted in a Canadian trolling fleet far superior to the fleets in either Alaska or the United States. Several hundreds of American trollers, who for years fished Dixon Entrance, Hecate Straits, and the west coast of Vancouver Island, were replaced by Canadian trollers. Through co-operative activity Canada has reclaimed her trolling industry for the benefit of Canada."

BY MR. FRANCIS:

Q. Pardon me, but I think it might be helpful to show the extent of the development by indicating on your map where those fishing grounds are located.

A. I spoke of fishing grounds at Dixon Entrance and

Hecate Straits. That is the area here (indicating) and down here. At this time it might be wise to show you also the area covered by the Prince Rupert Fishermen's Co-operative Association, and I might also add the Kyuquot Trollers Co-operative Association and the United Fishermen's Co-operative Society. The Prince Rupert Fishermen's Co-operative Association, with headquarters at Prince Rupert, B.C., operates fishing stations at Dundas, Stephens Island, Banks Island, Surf Inlet, Wiah Point, Naden Harbour and Langara Island. The last three mentioned are in the Queen Charlotte Islands. The boundary line between Alaska and Canada runs south of Cape Muzon and Prince of Wales Island (indicating on map). We also have a pick-up station on the west coast, at Frederick Island. That takes in the west coast of Graham Island, Queen Charlotte Islands.

There is also considerable fishing done down along the eastern shores of the Queen Charlotte Islands. The American fleet operated principally in the area of Dixon Entrance and Hecate Straits.

I also want to describe the operations on the west coast of Vancouver Island by the Kyuquot Trollers Co-operative Association. They operate seven fishing stations at: Bamfield, Uouleut, Tofino, Refuge Cove, Kyuquot, Klaskish and Winter Harbour.

The United Fishermen's Co-operative Society, with head office at Vancouver, operates stations in the Gulf of Georgia. Its stations are at Pender Harbour, Egmont, Lund, Bliss Landing, Stuart Island, Nanaimo, Prolier Pass and Active Pass.

Q. Would you indicate in a general way what is the

Federation of which you are the General Manager? What are the five organizations in the Federation? A. The Prince Rupert Fishermen's Co-operative Association, with head office at Prince Rupert; the Massett Co-operative Association, with head office and operations at Massett; the United Fishermen's Co-operative Society, with head office at Vancouver; the B. C. Cod Fishermen's Co-operative Association, with head office at Vancouver, and the Kyuquot Trollers Co-operative Association, with head office at Victoria.

Q. What do the stars on the map indicate?

A. The various collecting stations.

Q. Are all of these co-operative? A. Yes.

These two here, Skidegate and Cumshewa are camps for the collecting of fish livers, etc., which we are going to put in this year. We had a fish collecting station at Skidegate last year.

Q. Will you just continue reading the brief, please?

A. The brief continues:

"Many small fishing communities have grown up on the west coast of Vancouver Island and in northern British Columbia as a direct result of the fishermen's co-operatives putting in a service. The fishing populations through the ownership and operation of their own economy have a degree of security which they formerly did not have, which has resulted in stabilizing and expanding the fishing industry.
History.

The Prince Rupert Fishermen's Co-operative Association received its charter in 1931 and commenced operation in the trolling industry on the grounds adjacent to Prince Rupert in 1933. The prime objective of its organization was

to handle the fish production of its members and correct conditions referred to previously. Immediately in its first year of operation it was faced with supplying its member fishermen with food and gear, and therefore developed dual operations of marketing and consumers co-operation.

In the fall of 1936 the Association purchased two fish packers and increased the number of fishing camps on the grounds. In the year 1935 the salmon trollers of the Queen Charlotte Islands, many of whom were members of the Prince Rupert Fishermen's Co-operative Association, received a charter for the North Island Trollers Co-operative Association. It was the original intention to expand the activities of the Prince Rupert Fishermen's Co-operative Association to the Queen Charlotte Islands as the same fishermen fished both areas. This was accomplished by the amalgamation of the two Associations on December 1st, 1939 under the name of the Prince Rupert Fishermen's Co-operative Association.

During the years of operation of the North Island Trollers Co-operative Association, from 1935 to 1939, they purchased two large diesel packers and installed three fish camps on which they collected fish and operated stores.

The policy followed by the fishing companies of Prince Rupert in paying a small price for salmon forced the fishermen previous to the formation of the North Island Trollers Co-operative Association to pack their fish to Vancouver and Seattle. After the formation of the Co-operative they followed out a policy of auctioning their fish to all fishing companies on the Pacific Coast from Seattle to Prince Rupert, consequently a considerable tonnage of the

Queen Charlotte Islands salmon went to Seattle, Wash. The Prince Rupert Fishermen's Co-operative Association did not have this advantage and was forced to sell to the fishing companies and canneries in Prince Rupert and vicinity. As a consequence, in 1936 the Association entered the fields of freezing and canning, and has since that time processed part of its production each year.

In the spring of 1941 the halibut fishing industry was faced with a decided cut in the price of their fish livers with no apparent reason for such a decrease in price. A committee from the Deep Sea Fishermen's Union and the Canadian Halibut Vessel Owners' Association of Prince Rupert approached the Board of Directors of the Prince Rupert Fishermen's Co-operative Association and asked them to set up a plant, process and market their fish liver oils. This was agreed to by the Association under the conditions that the halibut fishermen become members of the Association and sign a two-year production agreement. This branch of the Association's activities has been very successful, and has done considerable to stabilize the Vitamin A oil industry.

In the spring of 1942 the halibut fishermen of Vancouver, B.C. became members of the United Fishermen's Co-operative Society, and made an agreement with an oil processing company to have their fish livers processed and marketed on a commission basis. In 1944 the Society purchased this fish liver oil plant and ran it themselves on a truly co-operative basis. Another branch of this Society was opened in 1943 to handle the fresh fish products of its gillnet and cod fishermen members. In the fall of 1944 the United Fishermen's Co-operative Society was forced to vacate its rented premises in

Vancouver, and is at the present time completing a combined oil processing plant, fresh fish handling, and small cold storage unit on the waterfront of Vancouver.

In 1943 the salmon trollers of central British Columbia were receiving $8\frac{1}{2}\text{¢}$ per pound for their coho salmon, where the Prince Rupert Fishermen's Co-operative Association received $13\frac{1}{2}\text{¢}$ to 14¢ . On becoming aware of this differential in price the trollers of the central area first asked the fishing companies of that district to raise the price, they made a maximum offer of 10¢ per pound which was not satisfactory to the fishermen. They then contacted the Prince Rupert Fishermen's Co-operative Association who immediately responded and put a service into the district and obtained $13\frac{1}{2}\text{¢}$ per pound.

During the seasons of 1943 and 1944 the Massett Co-operative Association canned the Association's production of coho salmon on the Queen Charlotte Islands. For many years the Association canned a portion of its production at Cassiar Cannery on the Skeena River. The total fish canned at both canneries since the war, being some 27,000 cases in 1943 and 17,000 cases in 1944, has been sold to the British Ministry of Food. The decrease in 1944 was due to the fact that the Association made shipments of fresh coho to the Canadian markets and Cassiar used their cannery to a larger extent for their own canning.

In 1944 the Prince Rupert Fishermen's Co-operative Association built a fish processing plant in Prince Rupert, and is adding a cold storage for the 1945 operation. The reasons for this development can be briefly enumerated as follows:

- (1) Inadequacy of cold storage and ice facilities at Prince Rupert.
- (2) The necessity of bringing the present fishing industry under modern methods of packaging.
- (3) Development of hitherto undeveloped fisheries with a view to supporting a larger fisheries population.

In the year 1931 the salmon trollers of the west coast of Vancouver Island faced similar conditions as the salmon trollers of northern British Columbia, and formed the Kyuquot Trollers Co-operative Association. They purchased packers and installed camps on the west coast of Vancouver Island, until to-day they operate seven fish camps throughout the entire length of the west coast and three large diesel packers. Their method of sales has been the auctioning of each trip of fish to the various fish buyers in Seattle, Vancouver, Victoria, and canneries on the west coast.

The B.C. Cod Fishermen's Co-operative Association has for its membership live ling cod fishermen of the Gulf of Georgia, and has operated for many years in this industry, marketing its cod production in a fresh state in the City of Vancouver.

The Massett Co-operative Association was formed in 1942 and is composed of citizens of the villages of Old and New Massett, Q.C.I., who co-operatively dig and can razor clams produced in that area.

The five Fishermen's Co-operative Associations mentioned, namely, the Prince Rupert Fishermen's Co-operative Association, United Fishermen's Co-operative Society, Kyuquot Trollers Co-operative Association,

B.C. Cod Fishermen's Co-operative Association, and Massett Co-operative Association, on September 9th, 1944 received a charter under the Co-operative Associations Act of British Columbia for the Fishermen's Co-operative Federation. This Association actively commenced its operations in January 1945, and will operate for the coming season in marketing the products of its member Associations and directing the policy of processing."

THE CHAIRMAN: That is the organization of which you are General Manager?

THE WITNESS: That is correct.

(The Witness continues to read brief)

"Prince Rupert Fishermen's Co-operative Association.
Membership.

The membership of the Association is restricted to fishermen and employees of the Association provided that not more than fifteen per cent of the membership are actually employees, and the remaining eighty-five per cent or more be fishermen.

Share Capital.

Share capital of the Association consists of an unlimited number of shares of \$10.00 each. An extraordinary resolution was passed recently to extend the number of shares that can be held by a member from fifty to one hundred. Share capital is raised by making a deduction of $\frac{1}{4}\%$ per pound on all fish handled by the Association and 5% on liver payments. It is recommended by the Board of Directors that a $2\frac{1}{2}\%$ deduction from all payments to fishermen on fish substitute the $\frac{1}{4}\%$ per pound, and that the 5% share capital deduction remain on liver payments.

Rule No. 12 of the Association states as follows:

"No member shall receive any dividend or interest on his shares."

Marketing.

The principles followed in marketing the products of the members are as follows. Approximately sixty to eighty per cent of the market valuation of fish produced by the salmon trollers is made to them at time of delivery. After all the fish has been sold the cost of selling, shipping, processing, administration, packing, and camp expense is averaged on a poundage basis and is deducted, and the total balance is returned to the fishermen on each grade and classification of fish. In regard to liver, no advance payment is made to boats fishing halibut, and a partial payment to boats fishing for dogfish and scrap liver. The same policy of settlement is followed out with the liver as with salmon. A somewhat similar policy of operation is followed out in the handling of halibut.

The following facts about the operation of the Association's liver processing plant very graphically show that through the efforts of the Association in returning a larger price to the fishermen there was a larger production of essential Vitamin A liver oil.

Prices of Fish Livers to the Fishermen.

		Halibut Liver	Ling Cod Liver	Black Cod Viscera Liver
1932	Companies Vancouver and Prince Rupert	12 ¢		
1933	"	15 ¢		
1934	"	30½ ¢		
1935	"	40¾ ¢		
1936	"	45 ¢	45 ¢	45 ¢

	<u>Halibut Liver</u>	<u>Ling Cod Liver</u>	<u>Black Cod Liver</u>	<u>Viscera</u>
1937 Companies Vancouver and Prince Rupert	50 ¢	40 ¢	35 ¢	
1938 "	50 ¢	40 ¢	35 ¢	
1939 "	50 ¢	40 ¢	35 ¢	
1940 "	50 ¢	40 ¢	25 ¢	
1941 Companies Prince Rupert	30 ¢	50 ¢	25 ¢	8 ¢
Companies Vancouver	40½ ¢	60 ¢	27½ ¢	10 ¢
Prince Rupert Fishermen's Co- operative Assn.	61 ¢	\$3.87	\$1.25	17 ¢
1942 P.R.F.C.A.	77 ¢	\$2.57	\$1.35	17 ¢
1943 P.R.F.C.A.	76 ¢	\$3.55	\$1.05	20 ¢"

THE WITNESS: Perhaps it would be clearer if I made an explanation of that table. The Vitamin A liver oil industry began on the Pacific Coast in about 1932, in a very small way, and 12 cents a pound was the price paid to the halibut men for their halibut livers. You will notice that ling cod livers, black cod livers and viscera were not purchased at that time--in fact, not until 1936. From 1932 until 1940 the price of halibut livers rose, and it became stable for the years 1937, 1938, 1939 and 1940 at 50 cents a pound. In 1936, as I have said, ling cod liver and black cod liver also became of commercial importance. In 1940 something happened in the sales end of the industry, and in the spring of 1941 the price dropped. The halibut fishermen, as I mentioned before in the brief, were faced with the possibility that it would not pay them to take the liver; they felt that if they could not get a higher price they would not bother taking it, so they approached the Prince Rupert Fishermen's Co-operative Association to set up a plant and process...

their livers. During the 1941 season there were three distinct operations. In Prince Rupert the J. H. Carson Company, which had operated since 1932, paid a price of 30 cents for halibut liver, 50 cents for ling cod liver, 25 cents for black cod liver and 8 cents for viscera. In Vancouver an agreement was made between the fishermen's union and the Canadian Fishing Company, and the prices paid were: $40\frac{1}{2}$ cents for halibut liver, 60 cents for ling cod liver, and $27\frac{1}{2}$ cents for black cod liver and 10 cents for viscera. But the Prince Rupert Fishermen's Co-operative Association was able to return to the fishermen, after deducting the cost of operation, 61 cents per pound for halibut liver, \$3.87 per pound for ling cod liver, \$1.25 per pound for black cod liver and 17 cents a pound for viscera. The facts speak for themselves.

I might state that the Dominion Government Department of Fisheries requires that a statement be put in every month of our production of livers and liver oils and their valuation. When we reported a valuation of somewhere around \$3.50 to \$3.87 for ling cod liver it was very much doubted by the Dominion Government, and they told us we were wrong. We signed the statement and sent it back again, and after that an inquiry was received at Prince Rupert whether we had a concentrating plant or not. Our chemists worked the whole thing out for them and sent it back to Vancouver, and we received then a new form to fill out, with the comment that this ling cod liver was a very important article and they wanted more information on it. As the table shows, in 1942 and 1943 a somewhat smaller price was obtained; so it was by no means a padding of that product, it was the actual value

of that product.

BY MR. FRANCIS:

Q. Is that the price per pound you have been speaking about? A. Yes, it is all per pound, value per pound. I am sorry it is not stated in the brief. The brief then goes on to give some more figures:

Sales Valuations of Prince Rupert Fishermen's Co-operative Association Liver and Viscera Production.

1941	\$125,000.00
1942	\$250,000.00
1943	\$325,000.00
1944	\$480,000.00

Vitamin A Market Value per Million Units (Based on Halibut Liver Average Potency).

1940	15¢	
1941	16 $\frac{1}{4}$ ¢	
1942	18¢	
1943	20¢	
1944	20¢ ¹¹	"

BY MR. ELLIOTT:

Q. May I interject to ask what exactly those prices for liver include? Do they include the deduction of 5 per cent that you mentioned? A. These are the gross sales valuations. Are you referring to the amounts of \$125,000, \$250,000 and so on.

Q. No; I am referring to the prices shown in the preceding table, the price of 61 cents for halibut liver, \$3.87 for ling cod liver, and so on. A. That would be the gross price paid to the fishermen.

Q. You mentioned a deduction of 5 per cent on liver payments. A. That is correct.

Q. These prices are less than 5 per cent? A. No, they include the 5 per cent.

Q. That is to say, the 5 per cent is actually retained in these prices, and what the fisherman gets at once is these prices less 5 per cent? A. That is right, that would be the actual cash received. The brief continues:

"In 1942 the fishing industry of British Columbia made a contract with the British Ministry of Food for dogfish liver oil. On the basis of an average potency of 8,000 units of Vitamin A the industry agreed to pay the fishermen $13\frac{1}{2}\%$ per pound. On the average potency of 6,000 units of Vitamin A produced by the Prince Rupert Fishermen's Co-operative Association in an area where the dogfish liver potency was low the Association returned to the fishermen $14\frac{1}{2}\%$ per pound. If the payment to the fishermen in the Prince Rupert area was in relationship to potency, the fishermen would have received only 10% per pound, which would have made the industry inoperative. It is estimated that 200,000 pounds of liver were produced, which otherwise would not have been, had the Co-operative not been in operation.

We estimate that the income to the halibut fishermen has been increased approximately thirty per cent due to fish liver operations, this certainly has placed the fishermen in a higher income tax bracket. Many of the American fishing companies operating in Canada follow a policy of billing the Canadian fish they buy at the price they pay to the fishermen plus the cost of packing, freezing, etc., thus allowing the profit to occur in their parent companies in the United States. The fishermen's

co-operatives, being organizations of the citizens of Canada, tend to have the maximum value of their fish production paid to the fishermen, which not only increases the income to the fishermen but also to all subsidiary industries.

Consumer.

The Association operated stores on its fish camps the first year it operated. Because of the same sales price prevailing at the fish camps as at the fishing ports, and due to a higher percentage of spoilage, the camp stores never at any time have shown much of an operating surplus. In all the Association operates six stores and six oil service stations on the fishing grounds.

The fishermen members of the Association living in and operating out of Prince Rupert requested that the Association service them at this port, and in March 1938 a fishermen's supply store was opened on the waterfront of Prince Rupert, whose sales since that time have been as follows:

1938	-	\$ 43,111.87
1939	-	\$ 73,141.28
1940	-	\$ 156,982.98
1941	-	\$ 274,834.23
1942	-	\$ 429,486.77
1943	-	\$ 444,204.68
1944	-	\$ 437,458.20."

THE WITNESS: I might mention that this is the store at Prince Rupert, and is not inclusive of the camp stores. Continuing:

"As a result of the declaration of war with Japan in 1941 Prince Rupert became the first line of defence for

Canada. The city immediately became flooded with United States troops, Canadian troops, and contractors with their gangs of workmen. Marine work arising out of the war brought in hundreds of workers. The service facilities of the city, geared to serve approximately 6,000 persons, suddenly was faced with servicing approximately three times the population. Goods became hard to get and many of the local retail stores closed, and their owners sought employment in more profitable occupations. The Board of Directors of the Prince Rupert Fishermen's Co-operative Association recognized the national emergency and increased their services to meet the demand.

Non-member business became a problem, but the membership at their general meeting in February 1940 passed a resolution giving non-members the same purchase saving privileges as members.

An attempt was made at segregating the Association into a marketing and consumers co-operative by introducing a resolution to its general meeting of 1943. This extraordinary resolution failed to obtain the necessary number of votes, and as a consequence the Kaien Consumers' Co-operative Association was formed to serve other than fishermen. This Association does an annual business of approximately \$150,000.00.

Purchase Savings.

Due to the non-profitable operation of the camp stores previous to 1938, the Prince Rupert Fishermen's Co-operative Association did not declare any purchase savings. From 1938 on purchase savings have been declared to members and non-members alike, and are set up in a Revolving Fund for a three year period, that is,

they are paid in cash to the patrons three years after the year in which they occur.

The following statement sets out the percentage and amount of purchase savings declared since 1938:

1938	-	3.5	Percent)	-	\$	6,158.03
1939	-	4	Percent)			
1940	-	4	Percent	-	\$	9,060.60	
1941	-	4.84	Percent	-	\$	16,828.62	
1942	-	5	Percent	-	\$	25,289.27	
1943	-	5	Percent	-	\$	26,498.80	
							<hr/>
							\$ 83,835.32

Reserves.

Attached to this brief will be found Appendix A giving a breakdown on the following reserves:

Legal Reserve	-	\$ 8,601.28
Special Reserve	-	\$ 2,046.33
General Reserve	-	\$ 715.10
Contingent Reserve	-	\$ 2,800.00

The Board of Directors has recommended that in future all expenses connected with the store building be charged against the operation of the store and office at cost.

Income Tax.

The Prince Rupert Fishermen's Co-operative Association has not at any time paid income tax on any of its operations, nor has it been asked to by the Income Tax Department.

Enclosed you will find copies of correspondence between the Association and the Income Tax Department relative to the operations of the Association in respect to income tax.

The Co-operative Associations Act of British Columbia is very much in variance with true co-operative principles in allowing certain spurious co-operatives to receive a charter. The Boards of Directors, membership, and management of the Prince Rupert Fishermen's Co-operative Association have at all times endeavoured to operate their organization along true co-operative principles. We are sure that all co-operators look forward to a definite line being drawn between what constitutes a true co-operative operation and one that does not.

Respectfully submitted,

PRINCE RUPERT FISHERMEN'S
CO-OPERATIVE ASSOCIATION.

(Sgd.) J. Deane

(Past General Manager).

APPENDIX A

RESERVES

Legal Reserve - \$ 8,601.28

The Legal Reserve has been taken off the surpluses on the operations of the Association as per the Co-operative Associations Act of British Columbia.

Previous to Amalgamation:

North Island Trollers - 1935 Store \$	263.50	
Co-op, Assn.		
1936 Fish	324.17	
1937	1,098.90	
1938	851.58	
1939	<u>882.67</u>	\$3,420.82

Prince Rupert Fisher-	1936 Store	\$	395.00	
men's Co-op.	1937		75.05	
	1938 Store		317.56	
	Fish		220.93	
	Packers		179.96	
	1939 Store		561.44	
	Camps		<u>70.00</u>	<u>1,819.94</u>
Total Legal Reserve at Amalgamation				\$5,240.76

Following Amalgamation:

Prince Rupert Fisher-	1940 Store	\$	1,173.40	
men's Co-op.	1941 Store		1,887.98	
	1942 Store		<u>299.14</u>	<u>3,360.52</u>
Total Legal Reserve as per Balance Sheet				\$6,601.28

General Reserve - \$ 715.10

Resolution of the General Meeting of the North Island
Trollers Co-operative Association, June 13th, 1939.

'That dividends accruing on the production and purchases
of non-members and on other unrecorded purchases be placed
in a special reserve fund to be used for the general good
and welfare of the Association at the discretion of the
directors.'

1938	Final Fish Payment unclaimed	\$	52.92	
1938	Store purchase savings unclaimed		363.33	
1938	Oil purchase savings unclaimed		<u>298.85</u>	
		\$	<u>715.10</u>	

RESERVES

Special Reserve - \$ 2,046.33

Resolution of a meeting of the Board of Directors of

the North Island Trollers Co-operative Association, October 26th, 1938.

'That no dividends shall be paid in respect of deliveries of fish by non-members whether or not such non-members joined the Association in a subsequent year, but that an amount equivalent to the dividends payable on such fish had it been turned in by members be placed in the Special Reserve for the founding of a Co-operative Wholesale.'

Discounts on purchases from wholesalers - 1937	\$41.92	
	1938	<u>67.09</u> \$ 109.01
Balance unclaimed purchase savings on store and oil purchases 1935, 1936, and 1937		575.97
November 30th, 1939 allocation from store and oil purchase savings to Special Reserve		1,361.35
		<hr/>
		\$2,040.33
		<hr/>

1939 Purchase Saving allocation:

To Purchase Savings	\$	298.37
To Special Reserve		1,361.35
		<hr/>
	\$	1,659.72
		<hr/>

Contingent Reserve - \$2,800.00

A resolution of the Board of Directors of the Prince Rupert Fishermen's Co-operative Association following the declaration of war in September 1939 set up a Contingent Reserve to look after a possible fall in prices at the cessation of hostilities. This Reserve will be taken into the surpluses of the store operation by resolution of the general meeting when the necessity arises.

1939 - From store surplus	\$1,300.00
1940 - From store surplus	<u>1,500.00</u>
	<u>\$2,800.00</u>

APPENDIX B

SOURCE OF SURPLUS IN PRINCE RUPERT FISHERMEN'S
CO-OPERATIVE ASSOCIATION SINCE AMALGAMATION
WITH NORTH ISLAND TROLLERS CO-OPERATIVE ASSOC-
IATION, DECEMBER 1st, 1939.

Surplus at Amalgamation, December 1st, 1939		\$ 7,644.15
Additions during 1940	\$ 363.02	
Deduct Prior Period Items	<u>257.26</u>	<u>105.76</u>
		\$ 7,749.91
<u>1940</u>		
Surplus from Fishing	\$ 556.19	
Surplus from Miscellaneous Income	<u>1507.39</u>	<u>2,063.58</u>
		\$9,813.49
<u>1941</u>		
Surplus from Fishing	\$ 22.38	
Surplus from Miscellaneous Income	<u>1159.67</u>	<u>1,182.05</u>
		\$10,995.54
<u>1942</u>		
Surplus from Fishing	\$1637.78	
Surplus from Miscellaneous Income	<u>2710.88</u>	<u>4,348.66</u>
		\$15,344.20."

THE WITNESS: With regard to the figures in Appendix A, I just want to make one point. Never at any time in the operations of the North Island Trollers Co-operative Association and the Prince Rupert Fishermen's Co-operative Association, which became amalgamated in 1939, have they divided up among the membership any surpluses from earnings occurring from any non-member business, or any surpluses occurring from amounts of money that have not been claimed by various fishermen and by various other purchasers from the store. Immediately a co-operative divides up among its membership earnings from outside sources it ceases to become a true co-operative and enters the realm of joint stock

companies, because the membership then are making money out of the public at large.

BY THE CHAIRMAN:

Q. What do you do with these amounts, then? A. We have to set them up in surplus, and we set them up in the reserves.

Q. What is the plan for disposing of them? A. That is a problem, of course. The only way we can see to dispose of them is to use them for general good and welfare, or they will have to remain where they are.

Q. That is, those reserves belong to the Association? A. That is correct.

Q. There is nobody else to whom they can belong? A. That is right.

BY MR. ELLIOTT:

Q. Are all those reserves of the kind you mentioned, namely, reserves of funds that do not belong to anybody else and must belong to the Association? A. No; we have a Legal Reserve.

Q. Could you point out which reserves are of the kind you have been discussing?

BY THE CHAIRMAN:

Q. I see you have a Legal Reserve here. We know what that is. That is in accordance with the Co-operative Associations Act of British Columbia, is it not? A. Yes.

Q. Then there is a General Reserve of \$715.10? A. Yes. I will quote again from Appendix A in regard to that:

"General Reserve - \$715.10"

Resolution of the General Meeting of the North Island Trollers Co-operative Association, June 13th, 1939.

'That dividends accruing on the production and purchases of non-members and on other unrecorded purchases be placed in a special reserve fund to be used for the general good and welfare of the Association at the discretion of the directors.'

1938	Final Fish Payment unclaimed	\$	52.92
1938	Store purchase savings unclaimed		363.33
1938	Oil purchase savings unclaimed		<u>298.85</u>
		\$	<u>715.10."</u>

Q. Would there not be some unclaimed amounts that would not be non-member business? A. Yes.

Q. Where would you carry them? A. They are embodied in these tables, member and non-member alike.

BY MR. ARNASON:

Q. These amounts that presumably belong to members might represent small sums which, because they are small, were not specifically recorded, or perhaps they were for some special type of service rendered by the Association?

A. The reason why these were unclaimed was that it was a responsibility of the purchaser to keep his slips and turn them in to the organization, on which he would claim his purchase savings, and in many cases the individuals did not bother to keep their slips or turn them in, and consequently we have an accumulation of unclaimed purchases savings.

Q. In connection with the disposal of this general reserve have the directors formed any definite idea as to how they are to be used? A. No, none other than the good and welfare of the Association, particularly educational.

Q. They have not considered turning them over to the community as a whole for, say, charitable purposes?

A. I do not think they have finally made up their minds what they should do with them. They may have made up their minds to this extent, that they should use them for the good and welfare of the community or of the co-operative membership at large, particularly educational, I should say.

BY MR. VAUGHAN:

Q. When you were able to determine that these amounts were unclaimed, did you not know to whom the amounts were payable? A. No. The accounting was not very good in those days.

Q. How could you tell that the amounts were unclaimed and yet not know who the claimants were? A. At the end of the year you have a certain net surplus. You know what your gross sales have been, and you can find what percentage is payable on purchase savings, and the amount that is unclaimed appears here in this statement.

BY THE CHAIRMAN:

Q. That is the amount over and above what you have disbursed to your members? That is what it is, really?

A. Yes.

BY MR. PARKER:

Q. Mr. Deane, I wonder if we could perhaps clarify this whole thing and make it a little less complicated than it is so far, to me at any rate. To begin with, your Association, the Prince Rupert Fishermen's Co-operative Association, is a body corporate, has a charter? A. That is correct.

Q. Which was obtained in-- A. 1931 and 1939.

Q. What was added to it in 1939 that it did not

have before? A. It was an amalgamation of the North Island Trollers Co-operative Association and the Prince Rupert Fishermen's Co-operative Association.

Q. In other words, from 1931 to 1939 it was operating on its own, and in 1939 it absorbed the North Island Trollers Co-operative Association? A. It was an amalgamation of the two organizations under the name of one of the former associations.

Q. The two having amalgamated and become a company, the new company had all the assets of the each of the others, is that correct? A. That is correct.

Q. From 1931 to 1939 how many members were there in the Prince Rupert Co-operative? A. I would say about three hundred.

Q. I understood you to say that when you began it was an association of about five. What constitutes the membership of the Prince Rupert Co-operative? A. The salmon trollers and also the halibut fishermen of Prince Rupert.

Q. Speaking generally, those are the businesses? A. Yes.

Q. But those businesses are represented by about three hundred separate associations, are they? A. The Prince Rupert Co-operative up to 1939 had about three hundred members.

Q. Let us get back to the start. In 1931, when this company got its first charter, it started off with a certain number of members, I suppose? A. That is correct.

Q. How many did it begin with? A. About ten.

Q. And each one of those ten were separate

incorporated associations with charters? A. No; ten individuals formed the co-operative.

Q. How long did the society continue with merely individuals as members? A. It still has individuals as members, it still is composed of individual fishermen.

Q. All individual fishermen? A. Yes.

Q. Does that make up the membership of the Prince Rupert? A. Yes.

Q. Your Association consists of three hundred or more individual members? A. Up to 1939, yes.

Q. And from 1939 down to date its membership has consisted of what? A. The salmon trollers, the halibut fishermen, some gill net fishermen and some seiners.

Q. All individuals? A. Yes, with the exception of the Kyoquot Trollers Co-operative, the United Fishermen's Co-operative and the Massett Co-operative.

Q. You have five association members and three hundred individuals? A. To-day we have between 1,200 and 1,300 individual members.

Q. When those individuals become members do they get a certificate of membership, or are they issued a share certificate of some kind? What makes someone a member? A. He makes an application to the Board of Directors, which is passed on by the Board of Directors, and upon payment of \$10 he receives a share, which entitles him to full membership.

Q. That is how they qualify? A. Yes.

Q. And that has been true right through the history? A. That is correct.

Q. Those 1,200 or 1,300 members, whatever it is, have all paid their \$10, or substantially all? A. That

is correct.

Q. So the Association has as a starting point ten times 1,200 or 1,300 dollars worth of share capital?

A. Some have more than one share, of course.

Q. But to the extent that each has been issued a share of stock, that is so? Is it a share of capital stock or is it a certificate? Have you got a sample here? A. No, I have not.

Q. What does this note that is issued to them say?

A. It is a share certificate.

Q. A share of what? It is a certificate saying that they are entitled to a share of what? A. It shows that they are a member in the Association, that they have a share or the number of shares that they have subscribed to.

Q. You are talking about a share of something. To me that does not mean anything unless you say of what it is a share. Is it a share in the capital of the company or a share in the earnings, or what? What does this certificate say the member has a share in? A. The ownership of the Prince Rupert Fishermen's Co-operative Association.

Q. You say some of those have put up more than the minimum of \$10? A. That is correct.

Q. In round figures can you tell us how much the 1,200 or 1,300 put up for those shares? You need not refer to your books, but just give it approximately, A. Over \$100,000.

Q. Is it a little or a lot over \$100,000? A. I can tell you in a moment.

BY THE CHAIRMAN:

Q. What do you call it, Mr. Deane, your share capital? A. That is correct, yes. It is \$126,943.

BY MR. PARKER:

Q. That is brought up to what date? A. To the end of October, 1944.

Q. Has there been any increase during the past year? A. This includes 1944.

Q. How much was added to it in 1944? A. I have to check back to my former balance sheet.

Q. That was the 1943 balance sheet you referred to first, was it? A. No, 1944.

MR. FRANCIS: I do not think the Commission has copies of the Association's last report, but I will hand in some copies now.

THE WITNESS: It was \$100,819 on October 31, 1943.

BY MR. PARKER:

Q. That is not what I asked you. You gave me first \$126,943 as at the end of October, 1944, and then I wanted to know how much had been added to that during the current year. That is the last year you have. A. That would be a matter of some \$26,000.

Q. You do not understand me. However, perhaps your answer is more to the point than my question was, so we will let it go at that. That has been growing from a small amount up to \$126,000, the point at which it arrived in October, 1944. A. That is correct.

Q. That has been gradually increasing year after year? A. Yes.

Q. And is still being added to during the current

year? A. Yes.

Q. During all the years that that money has been in the possession of the Association, have you paid any interest to those who put it up? A. None whatsoever.

Q. Let us come to these association members, four or five. How did they become members? A. They became members in the same way as individuals became members. They made an application to the Board of Directors and were accepted.

Q. How much did they put up? A. Different amounts.

Q. Just tell us. Take them in any order you like. There is the Trollers-- A. They are an amalgamated body.

Q. Please listen to my question. I want you to take those five association members of the Prince Rupert and tell me what amount of money they paid to the Prince Rupert in order to become members of the Prince Rupert. Do you understand that? A. Yes.

Q. Then answer. A. I cannot tell you exactly.

Q. Well, approximately. A. Some have paid--

Q. Name them by name, please. A. The Kyuquot Trollers Co-operative--

Q. When did they come in? A. About three years ago.

Q. Did they pay any money into the Prince Rupert in order to become a member? A. I think so.

Q. Do you know? A. I do know, yes.

Q. Tell me how much they paid? A. I don't know exactly.

Q. Have you got any record of it there? A. No,

BY THE CHAIRMAN:

Q. How many shares do they hold? A. Quoting from memory, I would say two.

BY MR. PARKER:

Q. For which they paid \$20? A. Yes.

Q. Is that all? A. Yes.

Q. Then, go on to the next. A. The United Fishermen's Co-operative owns one share, as far as I know, and the Massett Co-operative owns one share, as far as I know.

Q. And the other two? A. That is all.

Q. That is all the so-called share capital that the Prince Rupert possesses, is it? A. That is correct.

Q. Is it correct? Some of the Commissioners are rather looking at either you or me as though they are not quite satisfied with that. That is correct, is it?

A. Well, it is the ownership by the members of the Prince Rupert Fishermen's Co-operative Association.

Q. The ownership of what? A. The ownership of the assets of the Association.

Q. At any rate, the company has now for its operations that amount of money taken in from the sale of shares? A. Yes.

Q. That is not all the working capital the company has at the present time, is it? A. No.

Q. In addition to that source from which the company has been receiving money, it gets money from what other sources? Perhaps I can help you on that. It handles fish for its members? A. That is correct.

Q. That is, it fits them out with supplies through stores, it handles their fish, it does some processing, and

it sells the whole thing? It does all that kind work, the Prince Rupert Co-operative does? A. Yes.

Q. And out of the gross receipts from the sale of all the Prince Rupert's products, the Prince Rupert takes in large sums of money every year, does it not? A. That is correct.

Q. And out of those gross proceeds it then pays general operating expenses? A. That is right.

Q. And having paid all those expenses, it still has substantial sums left each year? A. That is correct.

Q. Now we come to those substantial sums to find out what you do with them. The Prince Rupert sets aside a certain Legal Reserve, as it is called? A. I might explain to you--

Q. Just answer if that is right, and you can explain afterwards. A. I can say "Yes" and "No" to that question. If you will let me give an explanation--

Q. All right, go ahead. A. In connection with the fish--

Q. That is what I want to talk about, just the sales of the fish, leaving the stores end out of it for the moment. A. The total amount over and above the cost of operation is returned to the fishermen.

Q. Just a moment till we see if that is so. Is everything over and above the cost of operation returned to the fishermen? A. All except a small surplus which we take into the next year's operations.

Q. Why do you not pay it all back to them? Why keep anything back? A. You have to have a little bit of money.

Q. Why do you have to have a little bit of money?

A. To take care of small contingencies and one thing and another that crop up when you make a settlement.

Q. But in the cost of operation do you include something for reserves? A. On our vessels and on our equipment.

Q. I do not care on what, but on the cost of operation? A. That is right.

Q. After paying your wages and rent and what not, do you then include in your operating costs depreciation reserves on your vessels and other equipment? A. Yes.

Q. And your Legal Reserve, is that a part of your operating cost? A. No.

Q. And your Contingent Reserve? A. No.

Q. Then where does the money for this Legal Reserve come from? A. From the operation of the consumer branch of the Association.

Q. Is that also true of the General Reserve that you referred to? A. That is correct.

Q. And the Contingent Reserve? A. Yes.

Q. On what terms does the Prince Rupert handle the fish of its members? A. The fishermen are paid what we call an advance price at the time of delivery.

Q. Is there a written agreement between the fishermen and the Association setting forth the terms on which you handle their fish? A. Yes, we have a written agreement.

Q. Have you a copy here? A. Yes.

Q. Will you let me see it, please? A. I don't think I have it.

MR. LOCKE: Here is a copy, which I got last night from Mr. Francis.

BY MR. PARKER:

Q. Will you look at that and tell me if that is a correct copy of the form of agreement which you are talking about now? A. That is a correct copy for the year 1944.

Q. Is that the same as you were operating under in 1943? A. We didn't have a written agreement for the fish in 1943.

Q. Is 1944 the first year that you had a written agreement for the fish? A. Yes.

Q. On what terms, then, did you handle fish prior to the coming into existence of this agreement? A. The members of the Association delivered their fish to the Association because they were members of the Association. It is entirely optional on their part.

Q. Either you do not understand me or you are evading the question, and I am sure you would not do that. Under what terms did the members deliver their fish to you? In other words, did the Association buy it from the members? A. No. I would say that the Co-operative handled it for the members.

Q. You say the Association did not buy it. It either did or it did not. You were the Manager, and you ought to be able to tell us. Which is it? A. They did not buy it.

Q. Then on what terms did they take possession of it or take delivery of it? A. By paying an advance price at the time of delivery.

Q. How was the amount that would be paid on delivery arrived at, by discussion between you and the member? A. By a resolution of the Board of Directors.

Q. How would they arrive at the price that was to be

paid on delivery? Was it what was believed to be a fair market price at the time? A. No; it would be a percentage of the fair market price at the time.

Q. What percentage? A. I said in my brief anywhere between 60 and 80 per cent.

Q. That applies to each year, perhaps with slight variations? A. That is correct.

BY THE CHAIRMAN:

Q. Were your members under obligation to deliver to you only? A. No.

Q. They could deliver their fish to anyone? A. Just up till we had the agreement.

Q. It was last year when the agreement came into effect? A. Yes.

Q. Are all your members now under this agreement? A. That is correct. I may state here that in regard to the liver oil branch of the Association we had a former agreement just respecting that portion of operations.

MR. PARKER: Let us not get the liver mixed up with the fish; let us keep them separate.

BY THE CHAIRMAN:

Q. Why was it thought necessary to make this agreement last year? A. That came mainly from the liver oil branch of the organization. There was a certain amount of chiselling, if you want to put it that way, and the halibut fishermen felt it essential that they should have an agreement.

MR. PARKER: You anticipate me, my Lord.

BY MR. PARKER:

Q. The directors met and by resolution decided the amount of money that would be paid during that season or

part of the season as the fish was delivered, is that correct? A. That is correct.

Q. Was there any obligation on the Association's part to its members to pay to the members any more than the amount paid at the time of delivery? A. No, I would not say so.

Q. There was no obligation to pay any more than that if the directors decided that no more should be paid? A. That is correct.

BY THE CHAIRMAN:

Q. Do you understand what obligation means, an enforceable obligation? A. If the membership was not satisfied with the advance payment, that would be brought up at the annual general meeting and the Board of Directors would be so instructed.

BY MR. PARKER:

Q. Suppose at the annual meeting there were a lot of people present and you explained the financial position of the Association, showing that you had a fairly good year, and suppose you had two cents a pound that you could pay back to the fishermen, but the directors decided that instead of paying that back they would go out and buy a vessel. Could that be done? Was that the way you were working? A. No.

Q. Now, come to the agreement. Having operated from 1931 to 1943 without any written agreement for the handling of this fish, will you tell me what happened to induce you to get every member to sign up on this agreement? A. In 1936 we had an agreement for one year only, and from 1936 until 1944 we operated without an agreement. During that time we were operating

principally with the salmon trollers. They of course mainly sold their fish to the organization, but at times there were quite a few that did not. Coupled with that we went into the liver oil business, and some of the members sold their livers outside of the contract that the Association had with them. In 1944 we also entered into the handling of halibut for our Association members, and the halibut fishermen particularly felt that an agreement was essential. That was the main reason for the agreement in 1944 covering fish as well as livers.

Q. Were you under any obligation up to the time of this agreement to receive and handle all the fish that was tendered to you, or could you reject any if you wanted to?

A. That is correct, yes.

Q. You could take what you wanted to, and if there was any type of fish you did not want, or if there was a glut on the market, the fishermen would have to shift for themselves, is that right? A. Yes.

Q. Was that changed under the terms of the agreement?

A. No.

Q. Let us read the agreement. It is not very long. It says:

"That the undersigned producer will deliver to the Association for the year 1944 his entire production of

(1) Troll-caught salmon, except in such cases as it is impossible for him to deliver such salmon to regular owned and operated camps or stations of the Association, or the regular appointed agents of the Association;

(2) Livers and viscera of all halibut, etc.

(3) Any other fish or fish products which the Association shall from time to time deem it advisable to

undertake the marketing of."

So they are bound to deliver all their fish, and you are bound to take only such of it as you think you can market?

A. That is correct.

Q. The agreement goes on to say that it is subject to the following conditions:

"Initial payments or partial payments on all fish and fish products will be made at the discretion of the Association, the amount of such payments to be determined from time to time by the Board of Directors or the Liver Committee with the approval of the Board."

In other words, it is solely for the Board to decide that initial payment. The 1,200 or 1,300 members have no say in it? A. At general meetings they can indicate the policy under which they wish to have payments made. The Board of Directors must follow the policy laid down by the general meeting.

Q. Then clause (c) of that first paragraph of conditions says:

"(c) In the case of the Association handling halibut, cod and other flat fish for the producer, any surpluses occurring over and above the market price paid to the fishermen less operating expenses, reserves, etc., shall be credited to the producers of such fish signed to the agreement on the basis of fish sold, whether delivery is taken by the Association or is sold by option or otherwise to fish buyers."

The next paragraph says:

"(2) No financial obligation shall attach to the Association beyond the amount or amounts realized from the sale of the said products, or products manufactured

from them, less any commissions, freight, expenses, wages, rent, taxes, licences, reserves, etc."

And paragraph 3:

"(3) Final settlement will not be made until such time as it is known what the net proceeds of the sales of the said products, or products manufactured from them will be..."

I need not read any more of the agreement at the moment.

THE CHAIRMAN: Are you filing that copy of the agreement?

MR. PARKER: I think a copy should be filed.

MR. LOCKE: It may as well be marked. There is a notation on that copy, put on by me, that I only obtained it at 10 o'clock last night.

(Copy of agreement filed as Exhibit No. 7, Serial 43.,

BY MR. PARKER:

Q. Am I right that under the terms of the agreement the Association can pay to the fishermen its members, in addition to that initial payment such amount as it by resolution determines, less costs, expenses of handling, reserves, etc.? Is that your understanding? A. That is correct, yes.

Q. As a matter of practice--I suppose you do not know, because the agreement was only for the year 1944--how much have the directors decided to pay to the fishermen, every cent that they made? A. That is correct.

Q. Did they not keep back any reserve for 1944? A. They kept back a reserve for depreciation of the vessels.

Q. How much? A. I can tell you from the balance

sheet. On the vessels \$3,870.23; on the fish camps \$1,659.10; on the camp equipment \$285.27; on the cannery equipment \$194.76; and on the fish plant the auditor set up \$4,396.69.

Q. I do not care what the auditor set up. Did you keep that amount of money back? A. No.

Q. Then what did the auditor set it up for? Do your accounts reflect what you actually did or only what you imagine you did? A. That was set up by the auditor against the building which we built last summer and which was not completed till the beginning of the year, so the Board did not think we should set up a reserve against it.

Q. Since 1935 the Prince Rupert Fishermen's Co-operative Association has acquired substantial assets, has it not? A. That is correct.

Q. By way of buildings, plant, equipment, stores, and so on? A. That is right.

Q. In round figures, at the end of 1944 what were the total assets of the company? A. Do you want the fixed assets?

Q. All your assets. That is what I am talking about. I want to know the Association's total worth in assets, whether it be money in the bank, vessels, stores, inventory or what not. A. According to our Combined Balance Sheet, \$1,048,574.70.

Q. That includes certain vessels that you have spoken about? A. That is right.

Q. Certain camp premises? A. Yes.

Q. Certain stores? A. Yes.

Q. Certain inventories? A. Yes, fish and stores and oil.

Q. Certain store inventories I am talking about now?

A. Yes.

Q. Does it include a large amount of fish on hand?

A. Yes.

Q. How much of the \$1,048,574 represents inventories of fish delivered to you by your members? A. The balance sheet as at October 31, 1944, in fact gives you all inventories.

Q. Just do not give me any more than I ask for. I asked you to tell me in round figures the value of the fish which is included in that total of \$1, 048,574.

A. About \$97,000.

Q. For our purpose let us talk of it as about \$100,000. Why do you say that quantity of fish is an asset of the Association, if you had not bought it from the members? A. It is held in trust for the membership.

Q. As against your assets what did you owe at that time, in round figures? A. There is an item here, as far as the fish is concerned, Suspense Account \$230,944.

Q. Is that the over-all amount of liabilities, \$230,944? A. That is correct, that is for the fish.

Q. No, I am not talking about the fish; I am talking about your entire liabilities. Your current liabilities, per Exhibit "A", are \$119,009. Does that mean what you owe to members for fish? A. That is on the balance sheet of the Prince Rupert Co-operative, excluding the Oil Department.

Q. Just tell me what this is. Your current liabilities, per Exhibit "A", are \$119,009. Does that amount represent in the main what you owe to members for fish? If you do not know, say so. Apparently it does

not, for there are some miscellaneous items. A. Yes, there are quite a lot of miscellaneous items.

Q. The point is that you do not carry in your liabilities at the end of the year any advances that you have made to the fishermen, or do you? I suppose you borrow from the bank to pay them, and you have a corresponding liability to the bank? Is that how you operate?

A. We do to some extent, yes.

Q. You have Surpluses and Reserves shown on the balance sheet totalling \$78,012.18. You have \$78,012.18 of net assets, is that what you mean? A. That is Surpluses and Reserves, yes.

Q. Whether it is seventy-eight thousand dollars or a million and seventy-eight thousand dollars does not concern me, but what I want to get is this: Where did the Association get the money to purchase all the fishing vessels and stores and plants and gear and all the rest of it that the Association owns? I presume they are paid for, are they? A. That is correct.

Q. How were they paid for? A. They got it from share capital.

Q. We know how much that is; you have told us about that. A. From their reserves.

Q. And the reserves come from money which might otherwise have been paid to the fishermen for the balance on the fish--they come in part from that, and the rest through the stores? A. I would say depreciation reserves and such like.

Q. But it comes from money that you received for the sale of your members' fish. A. That is correct.

Q. Having paid your expenses and paid the fishermen

what you think they should have, you have been able to keep back enough so that you have acquired these assets, whether they be worth ten dollars or a million dollars?

A. That is correct.

Q. And during that period the Association has not paid any income tax? A. That is right.

Q. Have you made income tax returns? A. Every year.

Q. To the Vancouver district, I suppose? A. That is right.

Q. Have you received any instructions as to your method of doing business, in relation to taxation?

A. We have had some correspondence.

Q. You referred to that in your brief and said the correspondence was attached, but it was not attached to my copy of the brief. Where is that correspondence? I understand it was not forwarded to the Commission.

A. Here is a copy of it.

Q. Why did you not forward it?

MR. CHAPDELAINE: It may have been attached to the main copy on the file.

BY MR. PARKER:

Q. Have you got copies that you can leave with us now? A. I have that copy (producing) and the originals.

Q. Is this just a single copy of the correspondence? A. Yes.

Q. This is back in 1942? A. Yes.

Q. It relates just to the one year, does it? Here is a communication in June, 1943, and one in September, 1943. Here is an interesting thing: I find in this

letter from you, apparently, that the non-member business in stores and oil was \$91,250 and that the member business was \$414,000. What does this correspondence deal with? Does it deal with whether or not you were taxable because you were doing so much business with non-members? A. That is the point involved in the correspondence.

Q. And finally you were advised that you were not caught by reason of doing too much non-member business? A. I would not say "caught".

Q. By "caught" I mean to become taxable. A. Yes, that is right.

BY THE CHAIRMAN:

Q. Was that when you organized the separate co-operative in Prince Rupert? A. Yes.

BY MR. PARKER:

Q. Did you organize that on the advice of anybody? A. No.

Q. What was the deciding factor, then? A. The Prince Rupert Fishermen's Co-operative Association is a marketing co-operative and is also a consumers co-operative, and by virtue of the fact that it handled considerable quantities of fish it was not in the interests of the fishermen to have the general public on the Board of Directors. There was a move made by introducing an extraordinary resolution to the Special General Meeting to split the organization into a marketing co-operative and a consumers co-operative. This did not carry by the three-quarters majority vote. Therefore Kaion Consumers Co-operative was organized in Prince Rupert.

Q. Throughout your brief, the early part of it particularly, you have stressed the fact that the

fishermen of the Pacific Coast are getting much better prices through the operation of this Co-operative and its Associations than they were previously getting through the other dealers. You make a great deal of that in your brief, do you not? A. I drew a parallel at the time that the Association took it over.

Q. I know you did, but is not that what you brief intended to convey, that the fishermen are getting much better prices than they were without the Association? Is that not the impression you tried to convey? A. Yes.

Q. And no doubt you think that is so? A. I think so.

Q. Will you tell me why these better prices could not have been secured by the fishermen had they got together and improved the quality of their product and worked together under the name of an ordinary joint stock company? Could they not have accomplished all these improvements just as readily under what we call the joint stock method of doing business as under this method? Do you see any reason why they could not? A. Yes.

Q. What is it? A. One reason would be quality. Fishermen not only have to have control over their own fish when they produce it, but they also have to have control over the packing of that fish before they can produce a quality product.

Q. Why should that be so? Can they not produce good fish when they are delivering to an ordinary joint stock company? If a packing house says, "We want a certain grade of fish and we will not take a lower grade," can the fishermen not bring in as good quality to a joint stock company as to a co-operative? A. It is not a fact. Out on the Pacific Coast you have even to-day the

operation of canneries where they handle the fish I would say very badly, in our eyes.

Q. I am not disputing that perhaps a lot of poor fish goes to the independent packers. But is there anything inherent in the co-operative business which makes it possible to accomplish something that could not be accomplished through the other type of business if the catchers of fish and the processors and marketers are reasonably honest and want to produce a good quality of fish? A. The experience of the fishermen is that it does not happen that way, and they have no control over it.

BY THE CHAIRMAN:

Q. That raises a question with regard to the last paragraph of your brief. You imply that there are some spurious co-operatives, and then you say:

"The Boards of Directors, membership, and management of the Prince Rupert Fishermen's Co-operative Association have at all times endeavoured to operate their organization along true co-operative principles."

What are those principles? I am not asking you for a definition, but for the principles. That covers the question asked by Mr. Parker. A. A co-operative is formed of the primary producer and the ultimate consumer. Any co-operative organization that does not have as its membership the primary producer and the ultimate consumer we consider is not a true co-operative. For example, a group of stores could form themselves into a co-operative organization, and as such the benefits from the operation of that organization do not go back to the ultimate consumer.

BY MR. ARNASON:

Q. You mean privately owned stores? A. Privately owned stores.

BY THE CHAIRMAN:

Q. Are these the only principles you are going to give me now? A. I think that is the main one.

BY MR. PARKER:

Q. Is it correct that your store business--that is the supplies that you deliver to your fishermen--is operated as a separate business? A. That is correct, yes.

Q. You keep separate accounts so that you can tell what profit or loss there may be in each section? A. That is correct. It is all departmentalized.

Q. Has the store business been operated at a profit? Has it paid its way? A. Yes, it has had a surplus.

Q. It has had a surplus each year? A. That is correct.

Q. I mean, quite substantial. A. Fair, yes.

Q. What has been done with that? How have you disposed of that surplus? A. First of all there is a 10 per cent Legal Reserve set up.

Q. 10 per cent of what? A. 10 per cent of the surplus.

Q. That is provided by statute? A. That is right.

Q. You set that aside until you accumulate how much? A. Until your share capital reaches \$100,000, and after that it is optional whether you set any aside or not.

Q. But you have no share capital, have you, in this Association? A. Yes.

Q. Where? A. We have \$126,000 worth of share capital.

Q. That is called membership fees.

THE CHAIRMAN: No; that is share capital.

MR. PARKER: He has called it both. I am not quite sure what it is.

THE WITNESS: I did not say membership fees.

BY MR. PARKER:

Q. It is share capital, then, is it? A. Yes.

Q. And you have set aside 10 per cent of what?

A. That would be the gross surpluses after the costs of operation are deducted.

Q. Then what else do you do? A. It varies from year to year.

Q. Do not bother me with statements. You set aside 10 per cent for your statutory reserve, and what else do you set aside, if anything? A. Generally an Educational Reserve.

Q. How much? A. That will vary.

Q. Is it one per cent or two per cent? A. Up to five per cent.

Q. By what authority do you suggest that the Association can take those surplus earnings and use them in that way and not pay any income tax on them? Do you suggest that if any company wanted to take its surplus earnings and use them for educational purposes it should not pay income tax on those earnings? A. It is allowable to us by the Co-operative Associations Act of British Columbia, under which we operate.

Q. What else do you set aside, if anything?

A. Generally each year that is what we do. We have set aside a Contingent Reserve for two years.

Q. How much does that run to? A. I think it is

\$2,800.

BY MR. ARNASON:

Q. In connection with your Educational Reserve, have you a provision or rule or by-law which makes it necessary for the directors to spend that Educational Reserve within a certain period of time after it is set aside? A. No.

Q. It can be carried forward? A. That is correct.

BY MR. PARKER:

Q. For any length of time? A. That is right.

Q. And ~~the~~ dividends that you keep back from members?

A. They are paid back to members three years afterwards.

Q. You keep them three years and use them as capital?

A. Yes.

Q. Like all the rest of the co-operatives, you operate what is called a revolving door scheme, and then the money is paid back? A. Yes.

Q. What is the total for the three years that the Association holds? A. It will vary according to the amount of the net surplus. I have to look at the balance sheet to tell you that. The figures are:

Fiscal Year 1938-9	\$1,331.89
" " 1940	4,540.07
" " 1941	16,790.85
" " 1942	25,250.25
" " 1943	26,470.87

Q. Those show the fluctuations? They are the totals in each year? A. That is right, the total amount declared.

BY MR. ELLIOTT:

Q. On that last point may I ask this question? You will recall discussing the prices shown on page 8 of your

brief. For 1941 the price paid by the Prince Rupert Fishermen's Co-operative for halibut liver was 61 cents, for ling cod liver \$3.87, and so on. You told me before that those were total prices, which meant that the five per cent deduction was to be subtracted from those prices?

A. Yes, in order to get the cash payment to the fishermen.

Q. With regard to the dividends payable for 1941, the \$16,790.85, as shown on Exhibit "A", are they also withheld out of those prices? Do those prices also include some of that \$16,790, or is that the 5 per cent deduction?

A. No; this here is entirely stores.

Q. So that the cash price received in 1941 by the fishermen for halibut liver was 61 cents, less 5 per cent?

A. That is correct.

BY MR. ARNASON:

Q. Mr. Deane, with reference to your Legal Reserve which you must set aside under the Co-operative Associations Act of British Columbia, do you think it would be practicable to allocate that Legal Reserve amongst the members in proportion to the value of business done with the Co-operatives?

A. Do you mean from a bookkeeping point of view?

Q. Yes. A. Yes, I think it would.

Q. Do you do it? A. No.

Q. You think it would be feasible? A. It could be done, yes.

BY MR. ELLIOTT:

Q. Do you think it would mean anything if you did it?

A. We cannot from the British Columbia Act get the exact terminology of what that Legal Reserve is intended for. It is not clear.

Q. So legally it would not make any difference whether you set that up in the books in one way or another?

A. No.

BY MR. ARNASON:

Q. With reference to patronage dividends payable, for example, on fishing gear, those dividends are retained for a three-year period? A. That is true.

Q. Do you think that those dividends should be considered as part of the income of the members in the year in which they are so set aside--Do you see what I mean?--rather than at the end of the third year when they are paid out? A. I don't think I quite understand that.

BY THE CHAIRMAN:

Q. What is the advantage of not paying them immediately? A. Do you mean of setting up a revolving door policy?

Q. Yes. A. It forms the ownership of your stock-in-trade.

Q. It gives you a working capital to go on with also? A. Yes, to own your stocks and a working capital to go on with.

BY MR. ARNASON:

Q. If a member of your Association was credited with a portion of those dividends for the year 1944, although he would not receive it in cash or in goods until 1947, would there be any objection to including those 1944 dividends as a part of his 1944 income? A. I do not think there would be, no. The ruling that we have got from the Income Tax Department in British Columbia is that those amounts of money that are declared share capital, the 5 per cent deduction or the $2\frac{1}{2}$ per cent

deduction, are classified as income for that year, but those amounts of purchase savings and revolving door funds are classified as income in the year in which they are paid to the individual. That is the ruling we have on it now.

BY THE CHAIRMAN:

Q. Your Co-operative is an instance of the combined producer and consumer co-operative? A. Yes.

Q. Do you find any conflict between the two theories? A. We find it hard for the fisherman: he sees actually the dividing line as industry, instead of as producer and consumer. That of course is a matter of education. I am fairly sure that if that extraordinary resolution was put to our membership to-day to divide the organization into a marketing and consumer organization that it would carry, but at that time it did not carry.

Q. You find certain disadvantages in the joint operation? A. No, I would not say so, with the exception of non-member trade. Our stores carry fishing gear and boat supplies and goods that are particularly required by the fishing trade.

BY MR. NADEAU:

Q. Who are the owners of your bonds? A. They are the members of the Association.

Q. Has that bond issue increased since 1944? A. Yes; we have another one out this year.

Q. What is the amount of your latest bond issue? A. \$150,000.

Q. At what rate of interest? A. Three per cent.

Q. Were your payments of interest up to date before your latest bond issue? A. We had a bond issue last

year of \$30,000. We did not float the total amount. I am just quoting from memory now, but I think the interest rate was four per cent on that.

Q. The interest is all paid up? A. Yes, the interest is paid annually.

Q. You are not behind on these payments? A. No.

Q. Are all your bondholders members? A. Yes. You have to be a member before you can be a bondholder.

Q. Will you tell me why in Exhibit "A", on page 14 of your report for the year November 1, 1943, to October 31, 1944, you did not include on the liabilities side your suspense account for fish oil which we see in your combined balance sheet? A. I might explain that this balance sheet under Exhibit "A" is the balance sheet of fish operation and the stores operation of the Association. There is another balance sheet for fish oil alone, on page 30. The one on the inside back cover is a combination of the two balance sheets.

Q. Could you supply us with a copy of the articles of association of your Federation? A. Yes, I think I could. I have not got them with me, but I could.

BY MR. ARNASON:

Q. Mr. Deane, on page 10 of your brief you say:

"Non-member business became a problem, but the membership at their general meeting in February 1940 passed a resolution giving non-members the same purchase saving privileges as members."

I take that to mean that they would be credited with purchase dividends at the same rate as members who had invested moneys in the Association? A. That is correct.

Q. I wonder whether you would care to tell us why the members decided on that policy? A. One of the reasons was that the Association, being an organization of fishermen, did not wish the general public to become members of the Association and be elected on the Board of Directors; and because they did not wish the general public to become members, following out co-operative principles, they could not see where they were entitled to enter a joint stock company practice of making money out of the general public. In this case they followed out the co-operative principles of returning to the patron the purchase savings. If we had taken the surpluses from the non-member trade and paid it to our members we would immediately be entering the joint stock company practices and we could not be classed as a true co-operative.

BY MR. NADEAU:

Q. What is the object of your latest bond issue?

A. To build a processing plant.

BY MR. ELLIOTT:

Q. When you float a bond issue, are the members of your Association compelled by resolution of the Association to subscribe specific amounts, or is it a matter of choice to the individual member whether he will buy any of the bonds, and if so, how much? A. It is entirely optional to the member.

BY THE CHAIRMAN:

Q. The bonds are sold to the public? A. No, just to the members.

BY MR. VAUGHAN:

Q. In selling to your members, is it a straight payment outside of any interest in the Co-operative, or

is the payment made by deduction of some kind from balances owing? A. It could be either way, and it is either way. In some instances they pay cash and in other instances they give a written statement saying to deduct a certain amount off their final payments for fish and livers.

Q. In cases where a deduction is made for that purpose, how would the individual report that for income tax? Is it reported as a receipt first and then as an investment?

A. As far as the individual is concerned, we give him a statement of his total cash receipts from the organization, and also we give him a statement of the amount of share capital deductions and that is added up, showing his total income, which he has to report to the Income Tax Department.

Q. So far as you know he reports the total, does he?

A. I may explain at this point that the procedure carried on in British Columbia in connection with making income tax deductions is as follows. On vessels with three men or more the responsibility of making income tax deductions is on the party making the settlement for that vessel, for her trips, and 20 per cent of the net is deducted from each individual member of the crew and the skipper, and is turned in by the party making the settlement to the Income Tax Department; and on vessels with one to three men, which includes gill net fishing, 10 per cent of the gross is deducted, and the responsibility of making that payment is with the company or association handling the fish or buying the fish. Each month we turn into the Income Tax Department a list of all the members of the Association--whether they are members or non-members, all that we buy fish from--and we set out 10 per cent of the gross amount that we pay them and we send the Income Tax Department a

cheque for the aggregate amount of all the deductions. The Income Tax Department sends a receipt back to the individual fishermen.

Q. That is, the tax is paid on the total of all those deductions that are made? A. Yes, that is 10 per cent of the total.

Q. In subscribing for those bonds, is the biggest part of it paid out of deductions or in actual cash?

A. I would say over half of it is paid in cash.

Q. Referring to the very large amount of \$596,974.30, shown on the balance sheet as owing to fishermen, is that for current fish sent in or does that amount owing run back a number of years? A. Principally for 1944 operation-- I know it is all for 1944 operation.

Q. What is the total volume of the whole business that goes through that is represented in this amount owing to fishermen? That would be on the fish sent in to be sold, I presume? That is what that debt is, unpaid balances to fishermen? A. Yes, that is their final payment.

Q. What would be the total amount of fish sent in for sale by those fishermen, the total that this is the balance on? A. I would say the fish amounts to one million dollars and oils would be somewhat over four hundred thousand dollars.

Q. That would be a million and a half? A. A little under a million and a half.

Q. Then this amount would represent over one-third of the total? A. I might say that in regard to liver oils there is no advance paid, and that builds that amount up substantially.

Q. There is nothing in the way of reserve held back to be paid back in a number of years? A. No.

Q. Returning to the prices quoted in your brief, these fish livers are sold from Atlantic fish as well as from Pacific fish, are they not? A. Principally from the Pacific.

Q. Do the prices of Atlantic livers correspond to the prices of Pacific livers, do you know? A. I do not know. Liver oil is sold on the Vitamin A basis. There is more Vitamin A appearing in fish livers on the Pacific Coast than appears in fish livers on the Atlantic Coast.

Q. Do you think this increase in price is due to the great demand that has arisen in various years for vitamins? They have been sold in large quantities, prescribed by medical men, and so on. The increased demand may have caused the price to rise? A. In the third table on page 8 of the brief I have traced the market value of Vitamin A. In 1940 it was 15 cents per million units, based on halibut liver average potency. In 1943 it was 20 cents, and in 1944 it was 20 cents.

Q. Do you attribute this whole increase to the activities of the Co-operative, or do you think it is due to general conditions, to the greater demand for vitamins? A. I think it is probably due to the greater demand for vitamins. The only point I had in making that statement on page 8 was that the industry was not receiving the true value of the liver.

BY MR. ELLIOTT:

Q. That jump in prices on that page includes three prices for 1941, does it not? A. I might state in fairness to the company in Vancouver that was purchasing

halibut liver oil that the potency of the halibut liver that is delivered at Vancouver is not as high as the potency of the halibut liver that is delivered at Prince Rupert. The difference between $40\frac{1}{2}$ cents and 61 cents is not very great; but the difference between 60 cents and \$3.87 for ling cod liver is large, because we have carried on tests on the ling cod liver delivered at Vancouver and we find it is practically of the same potency as the ling cod liver delivered at Prince Rupert.

BY THE CHAIRMAN:

Q. What about the price of 30 cents paid for halibut liver by the companies at Prince Rupert as compared with 61 cents paid by the Prince Rupert Co-operative? A. That came from a breakdown in the market. No one knew just what was going to happen, and different people had different opinions regarding the marketing of oils. The company that had been doing buying from 1932 until 1940, which was Parke Davis, dropped out of the picture in 1941.

The Commission adjourned at 12.40 p.m.

Ottawa, Monday, April 9, 1945.

The Commission resumed at 2.20 p.m.

Examination of John Deane, continued:

BY MR. LOCKE:

Q. Now, Mr. Deane, I asked you to produce certain documents here to-day, among them the financial statements of the Prince Rupert Fishermen's Co-operative Association for the years 1937 to 1944 inclusive. We have already had 1944, and I would like to have all the others and file them. A. I think I have them right here.

MR. LOCKE: I would like to put all these in as one exhibit, my Lord.

THE CHAIRMAN: That document this morning was the first exhibit; are you going to make this number 2?

MR. PARKER: There were three exhibits this morning -- the 1944 statement; a copy of the correspondence with the Income Tax Office, and a copy of the agreement. That would be No. 4, I suppose.

Financial Reports for other than 1944
filed as Exhibit No.4.

THE WITNESS: Here is 1943.

MR. FRANCIS: I would like to point out, my Lord, that most of these documents have been on our file in Vancouver. While we are quite willing to produce them for the assistance of my learned friend, I simply do not want this to be treated as an admission that my learned friend is entitled to call for any documents from this particular witness. We have had several cases arise where documents have been filed confidentially, but in this case they were filed publicly in Vancouver, and there is no reason why they should not be produced here.

THE CHAIRMAN: These are public documents?

MR. FRANCIS: Yes, that is why we are co-operating to this extent.

BY MR. LOCKE:

Q. Have you filed with the balance sheet the entire document, or have you cut out the director's report as you did in the copy you sent to me? A. I think the entire document is filed.

Q. May I have the document that was filed this morning?
A. Yes.

Q. Now let me have the same document in regard to Kyuquot Trollers Co-operative Association.

MR. FRANCIS: The witness has no authority to appear for the Kyuquot Trollers Co-operative Association. In a letter written by my learned friend I think about seven requests were made as to that association. This witness was never requested to appear for them and has no authority to do so. I would like to make that clear.

MR. LOCKE: I thought it was understood that Mr. Deane was going to appear generally for the fishermen's co-operatives. I thought that was said in Vancouver.

THE CHAIRMAN: My understanding was that it was for Prince Rupert only, the ones we have here now.

BY MR. LOCKE:

Q. Have you got the financial statement of the Kyuquot Trollers Co-operative Association for the years 1937 to 1944 inclusive, or any of them? A. Yes, I have them for my own information, but I have not got them here to file.

Q. Have you got them here in Court? A. No, they are up in my room.

Q. Is there any objection to producing them?

BY THE CHAIRMAN:

Q. What is your official position in this Kyuquot Co-operative Association? Are you an official of this company?
A. No.

Mr. Deane

THE CHAIRMAN: I think that disposes of it, Mr. Locke.

MR. LOCKE: Very well, my Lord. (To the witness):

Q. I also asked you to produce a copy of the written agreement made by the Prince Rupert Co-operative Association with its members providing the manner in which the members' fish of all kinds, fish liver, fish oil, fish viscera, and so forth, should be marketed in 1939 to 1944 inclusive. You told Mr. Parker there was no contract in regard to the fish until 1944? A. Yes.

Q. You put that in? A. Yes.

Q. Was there a contract in regard to fish livers in any of those years? A. Yes.

Q. Produce it, please. A. I haven't got it with me.

Q. Well, where is it? A. It would be in Prince Rupert, I guess.

MR. LOCKE: The importance I attach to these documents is that there were statements made that the entire amount realized from the sale of these products, less expenses, is returned to the fisherman. The claim for income tax exemption must be made on the basis it is done pursuant to some contract, that there is some legal obligation on the association. The request for these documents was made only on Tuesday of last week. The reason was that I had been trying for several weeks to get the brief of the Prince Rupert Co-operative Association. It was delivered to me a week ago last Wednesday. It was then incomplete, because correspondence with the Income Tax Department was not there. It was delivered a week ago on Saturday. Easter Monday was a holiday, and the first business day after that I asked for these documents. I would ask that the Commission direct that these documents be produced and filed.

I would like to refer to this one.

BY THE CHAIRMAN:

Q. There can be no objection to that? A. That is true.

Q. Will you see that is delivered? A. I will. I might explain that the reason Mr. Locke did not get this document, or these documents, was that they are on file at Prince Rupert, and I am now stationed at Vancouver. In typewriting the brief the Prince Rupert office did not send a copy to Mr. Locke, as directed, and I had to wire them and ask them to put all speed on it and get it into the hands of Mr. Locke. It was no intention on our part that he should not have it in time.

BY MR. LOCKE:

Q. I am not suggesting that. I pointed out that I did not think that. The next thing I asked you to produce was the written records of the Prince Rupert Fishermen's Co-operative Association covering the initial payments made to members between 1937 and 1944 inclusive, referred to in pages 5 and 6 of the brief, and the final payment made for each grade and classification of fish in each of said years. Have you got that?

A. It will be in 1941, 1942 and 1943; the recent one for 1944 would not be ready yet because they are only making the final statements.

Q. It is in this statement you have filed? A. Yes, the initial payment and the final payment, both.

Q. What about the other years? A. What other years?

Q. I asked for eight years; there are three there. What about the rest? A. We could get them by going back into the books.

Q. Have you not got them prepared? A. I did not have time. I got your letter on April 4, the one you wrote April 3, asking for them. It would take some time to go through the books.

Q. You acknowledged the letter on April 3? A. Yes, it was written by you on April 3.

Q. In any event you have not got it? A. No.

MR. LOCKE: I would like some direction in regard to that, my Lord.

BY THE CHAIRMAN:

Q. When will we get that? A. I can wire Prince Rupert and have them prepare them.

MR. PARKER: I would suggest the witness send them to Mr. Locke direct.

MR. LOCKE: If they were put in and I could have copies, I would not need to cross-examine on them.

THE CHAIRMAN: Perhaps one set might be sent to Mr. Locke, and one to the Commission.

MR. LOCKE: Would you put some time limit on that, so that I will get it in time to be of some use to me?

BY THE CHAIRMAN:

Q. Could you get it within two weeks? A. Yes, I will wire them this evening.

MR. LOCKE: Thank you. (To the witness):

Q. Now, Mr. Deane, I also asked you for the records of the Prince Rupert Co-operative Association showing the number on the membership list, the amount credited to each member for the purchase of shares at the rate of one-quarter of a cent a pound of fish and five per cent of the liver payment. Have you got that compiled in any place? A. No.

Q. Is that the system that has prevailed from the commencement of the Prince Rupert Co-operative Association in paying for shares in that way? A. For about four or five years. We have that in the books of the association, of course, but we have not lists of them.

Q. On page 5 of your document, speaking of share capital, you say: "is raised by making these deductions." Is that the only period in the life of the co-operative which started in 1931 during which you have got subscriptions to share capital in this way? A. That is right.

Q. Did you take a written subscription for shares from your members as required by your rules? A. When a man applies for membership he applies to become a shareholder of the association.

Q. Is it in writing? A. Yes, that is correct.

Q. Will you produce one? A. I have not got one with me. It is just a formal application to become a member of the association.

Q. I would like to see the form of it. Will you supply me with one I can have to file with the Commission? A. Yes.

Q. Now, will you please produce to me a copy of any written contract between the Prince Rupert Co-operative Association and its members, or others, obligating the co-operative to return to such persons the amount paid by them for goods surplus to cost? A. There is not to my knowledge any contract to that effect.

Q. Section 4(p) of the Income Tax Act refers to co-operative associations as organized to operate on a co-operative basis and to purchase supplies and equipment for the use of its members under an obligation to turn such supplies and equipment over to them at cost plus necessary expenses and reserves. I understand you to say there is no such document and never has been between the Prince Rupert Co-operative Association and its members?

MR. FRANCIS: He did not say written document.

MR. LOCKE: I did not say written document.

THE WITNESS: There is no written document.

BY THE CHAIRMAN:

Q. It is an obligation? A. It is the co-operative principle of the association.

BY MR. LOCKE:

Q. I am going to ask you that. Is there anything in your rules or in any other document binding your members and obligating the co-operative to return amounts received by it from the sale of goods, surplus to the cost, less necessary expenses? A. That is the principle of co-operation.

Q. I am not asking you about the principle of co-operation. You and I probably would not agree as to that. My question is: Is there anything in the rules of your co-operative, or in any other document binding on your members, obligating it to return the amount received surplus to the cost? Can you answer that? A. Not right now, until I check the rules through.

MR. LOCKE: I think to save time, Mr. Francis, you might agree that there is nothing in the rules. If there is nothing there we can perhaps get ahead. (To the witness):

Q. Well, Mr. Deane, if you will give me a copy of your rules I will put them in. This will be the next exhibit.

Rules filed as Exhibit No.5.

Q. If there is no such obligation in the rules, then I am right in saying there is no such obligation anywhere binding your members to that effect?

MR. PARKER: That is in writing, you mean?

MR. LOCKE: Yes, anything else in writing. (To the witness):

Q. Is the question clear, Mr. Deane? A. I would say it is the principle for which the organization is organized.

Q. I am talking about a piece of paper writing, and if

it is in any rules. Is there anything in writing, binding on your members, obligating the association to return the surplus on goods? A. I do not think there is, no.

BY THE CHAIRMAN:

Q. Is it in effect under the statutes? A. No.

Q. Is it a matter of custom and practice? A. It is, definitely.

Q. That is to say, there is no obligation except custom and practice; that is your answer, is it? A. That is correct.

BY MR. LOCKE:

Q. I have been asking about documents in writing. Now, I will deal with the question of custom and practice. Custom where? Where do you say this custom exists? A. Wherever you find the co-operative movement in operation, or a co-operative business.

Q. Well, Mr. Deane, I think in the concluding paragraph of your brief you speak of organizations which are not real co-operatives, or not operating on co-operative principles; and there are many such in British Columbia? A. I would not say many.

Q. There are several? A. I know of one.

Q. You do not know of the others that I suggest to you are in British Columbia? A. No.

Q. Now, I also asked you for a certified copy of any resolution providing for the establishment by the Prince Rupert Fishermen's Co-operative Association of the revolving fund referred to under the heading "Purchase savings" on page 7 of your brief. Have you got that for me? A. No.

Q. Is there any such resolution? A. There is, yes.

Q. Where is it? A. In Prince Rupert.

Q. Will you get a certified copy of it, and will you give that to me within two weeks? A. Yes, sir.

Q. I also asked you for particulars of the price paid by the Prince Rupert Fishermen's Co-operative Association to its members for halibut in the year 1944. May I have that, please? A. It was the ceiling price fixed by the Wartime Prices and Trade Board, A-1095.

Q. I see. And did the Prince Rupert Co-operative Association then sell the halibut at the ceiling price allowed wholesalers? A. That is correct.

Q. And it has kept the difference? There wasn't any difference.

MR. PARKER: What is that? There was what?

BY MR. LOCKE:

Q. There wasn't any difference? A. No.

Q. Was there any difference in the price at which the wholesalers were permitted to sell it? Was not the processor required to pay for halibut under ten pounds and over sixty pounds $16\frac{1}{2}$ cents? Was not that the ceiling? A. That was the maximum price.

Q. You paid that? A. Correct.

Q. And the processor was permitted to charge $19\frac{1}{2}$ cents a pound boxed or 19 cents a pound in bulk? A. That was the maximum.

Q. No, $21\frac{1}{2}$ cents a pound was the maximum, was it not? A. Yes, that is right. Considerable sales were made to the British Ministry of Food for one cent a pound under the ceiling.

Q. Well, that ceiling was $19\frac{1}{2}$ cents, as I suggest, and will prove if necessary. Then there was a two cent spread between the ceiling and the fishermen and the ceiling to the processor? A. That is right.

Q. And did you get $18\frac{1}{2}$ cents? A. Are you talking about No.1 or No.2 halibut?

Q. I am talking of the halibut for which the ceiling to the fisherman is $16\frac{1}{2}$ cents. A. That is chicken and large.

Q. That is under ten pounds and over sixty pounds?
A. Yes.

Q. Did the co-operative sell at the ceiling? A. We did in Canada.

Q. Yes? A. To the British Ministry of Food we sold at one cent a pound under the ceiling.

Q. In any event you sold to both at at least two cents a pound over what you paid the fishermen? A. And we exported some to the United States.

Q. Did you get two cents a pound more for that? A. No.

Q. Now, we will just talk about the fish for which you got the ceiling. Where is the surplus? A. Storage charges mainly.

THE CHAIRMAN: I beg pardon?

THE WITNESS: In storage charges there is over a cent and a half charges.

BY MR. LOCKE:

Q. I understood you to say "storage charges mainly"; why qualify it. Is it the storage charges? A. No, but that was the major expense frozen.

Q. The halibut of the type we have been discussing, where the margin was three cents between the ceiling to the fishermen and the ceiling to the processor, on some you got a spread of three cents. Is that right? A. On the gross, yes.

Q. And there was a profit in that, was there not, where your spread was three cents? A. Yes, there should be a surplus.

Q. Now, on the medium fish, that is the ten to sixty pound fish, the ceiling to the fishermen was $18\frac{1}{4}$ cents and to the processor $21\frac{1}{4}$ cents boxed and $20\text{-}3/4$ cents bulk, is that right? A. I think so.

Q. Did you handle a large quantity of that fish?

A. Well, about -- I forget how many pounds.

Q. A large amount? A. A little over a half million altogether, No.1 and No.2.

Q. There was a very large quantity of fish. And was there a profit on fish on which there was a spread of three cents a pound to the co-operative? A. In shipping fresh, yes; frozen some of it, no.

Q. That is sufficiently indefinite. Do you want to explain that so it may be intelligible? A. In long storage and sales to the British Ministry of Food we go into the hole.

Q. Try not to confuse it, Mr. Deane. On the fish you sold fresh, where there is a spread of three cents a pound, did you make a profit? A. On what we sold in Canada, yes.

Q. Now, you could not give that profit to your fishermen, could you, because if you did you would be violating the price ceiling; is that not right? A. I do not think so.

Q. You do not think that is right. Now, you said to my learned friend, Mr. Parker, this morning, amongst other things, that the members of the co-operatives are the owners of the assets. I do not think you mean that, do you? Or do you?

A. Yes, they are the owners of the assets of the association.

Q. That is what you think? A. Yes.

Q. I see. You were also asked about the reserves that you had set up, depreciation and other reserves. My note is that you said that these came from the stores, that is from the profit from the operation of the stores? A. I did not say the depreciation.

Q. I may have misunderstood. A. The depreciation on the vessels and camps such as are used in the fisheries comes from the fishing operation. The legal reserves and contingent reserves and such other reserves as that come from the store operation.

Q. Is this right -- because it may be of some importance-- that with the exception of the legal reserve of ten per cent required by Section 13 of the Co-operative Association Act, depreciation reserve set up in regard to the vessels all comes from the operation of the stores? Am I right in that -- all the other depreciation reserves? A. No, I could not say that.

Q. You would not say that? A. The ten per cent legal reserves comes from the stores operation.

Q. And the depreciation on the vessels comes from the fish? A. Yes.

Q. What about the other numerous reserve accounts you have? Where do they come from? A. If you will enumerate them I will tell you where they come from.

Q. Can't you tell me without my enumerating them to you? A. Appendices "A" and "B" of the brief describe where they come from.

Q. I do not think that is quite complete. I refer to Schedule 2 on page 20 of the statement for 1944. Is that Exhibit "A"?

MR. CHAPDELAINE: Exhibit 1 is the memorandum of agreement. Exhibit 2 is the financial statement for 1944.

MR. LOCKE: I am referring to Exhibit 2. (To the witness):

Q. Look at page 20, where there is a schedule of reserves. Having now pointed out to you the accounts I am talking about, do they with the exception of the legal reserves come from the operation of the stores? A. The boat repair reserve and the

boat insurance are from the fishing, and the balance I would say in the main comes from the stores.

Q. The boat repair reserve and insurance and what?

A. The reserve for boat repairs and for boat insurance come from the fishing.

Q. And the rest from the stores; is that right? A. Yes, there is --

BY MR. PARKER:

Q. I note there is no depreciation reserve in that list.

A. There is in a separate schedule.

BY MR. LOCKE:

Q. We will come back to that, Mr. Deane. There are one or two general questions I would like to ask you. In the early part of your brief you referred to the very serious depression that existed in early 1930 and how bad conditions were in 1931. But that was common in all lines of business in western Canada at that time; is that right? A. Yes.

Q. I notice you say that at one time the price of halibut fell to two cents. My instructions from the companies are that six cents a pound was the minimum. A. I do not think so -- two cents for No.1 and two cents for No.2.

Q. When was that? I would like to check you on it.

A. I would not know just the years; around 1932 or 1933.

Q. Do you think it was in two years? A. It was very low for quite a period.

Q. We are not talking about whether or not it was low; we are talking about two cents a pound. A. I think that was in one year.

Q. What year was it, do you think? A. I think in 1932.

Q. Now, I also notice that you make as a statement of fact the assertion that the companies formerly owned the halibut

fleet and that now it is owned largely by the fishermen. I think it is right to say that the companies have not owned the halibut fleet since 1925; isn't that right? A. I think that is a pretty fair statement.

Q. You also make a statement as to the adequacy of the packer service that is given by the co-operatives. Is it not a fact that in 1944 there was a large run of springs on the west coast of Vancouver Island which the co-operatives could not handle and which was only handled with the assistance of the British Columbia Packers and others?

THE CHAIRMAN: A large run of what?

MR. LOCKE: I am sorry, spring salmon, I should have mentioned it. (To the witness):

Q. What do you say? A. I think it was cohoes you refer to, not springs.

Q. Not springs? A. I do not know what the operation is for.

Q. You did not hear that? A. I heard that they all had to hire assistance in the rush season.

Q. In your brief at page 3 you say this: "In the fall of 1936 the association purchased two fish packers and increased the number of fishing camps on the grounds." Now, you were with the Prince Rupert Fishermen's Co-operative Association at that time? A. Yes.

Q. Where did the money come from to buy those two packers? A. It came from --

Q. Let me extend the question. Was the money taken out of the money realized from fishing, or was it borrowed from the bank or elsewhere, or where did it come from? A. The general meeting of the members took certain deductions from the fish

and credited their members with the share capital to purchase two packers.

Q. This was in 1936? A. And 1937.

Q. I beg pardon? A. Yes, 1936 and the years following.

Q. And this will be shown in this statement that I have not seen yet, but which we put in? A. I think it will.

BY MR. ARNASON:

Q. Was that authorized at a general meeting? A. Yes, the Board of Directors made a purchase and the general meeting O.K.'d the purchase of it.

BY MR. LOCKE:

Q. The money used was the capital subscribed by the members to purchase these two packers? A. That is right -- authorized by them.

Q. Irrespective of whether it was authorized or not, was the source of the money to buy these two packers capital money raised from the members? A. That is right; it was.

Q. In regard to your method of raising the capital by deductions from your members, I do not see any provision for that in your rules and I think there is none. Where is that provided in your rules? You will see that shares are to be paid for in cash, which does not mean they have to be paid for all at once, but that is all your rules say. Where is it provided that your share capital shall be raised in this way? Is it in the contract? A. If the members in general meeting passed a resolution that they are willing to have such deductions made, the Board of Directors, of course, have no alternative except to make the deductions.

Q. Did you start that answer with "if"? A. I should say they did.

Q. When was that authorized, and would you please produce a certified copy of the resolution authorizing it? Now,

on page 5 of your submission under the heading of "Marketing" I see: "The principles followed in marketing the products of the members are as follows. Approximately sixty to eighty per cent of the market valuation of the fish produced by the salmon trollers is made to them at the time of delivery." What market value is that; where -- on the grounds? A. At Prince Rupert.

THE CHAIRMAN: How is that market value fixed?

BY MR. LOCKE:

Q. Yes, how is that value fixed? A. It is a general practice by the trade. There is a certain price paid to the fishermen that are not selling through the fish co-operatives.

Q. What is, you make your price coincide with the non-co-operative? A. No; we use that as the basis to make the advanced payment.

THE CHAIRMAN: I will not interrupt you, Mr. Locke, go ahead.

BY MR. LOCKE:

Q. I understand what you have said to the Chairman is that this market value you refer to in the brief is the price paid by the fish buyers at Prince Rupert? A. Or the Wartime Prices and Trade Board ceilings the last two years.

Q. Ceilings? A. Yes.

Q. Do you pay that even when you take the fish at sea in the packers? A. We have the price on the grounds one cent less than the prices delivered in Prince Rupert, the advance price.

Q. Then it is not the market price; it is one cent less than the market price if delivery is taken at sea? A. We do not deal strictly on sixty to eighty per cent of the market price.

Q. I am not talking about that. What is that market price? The market price is the price paid by the fish buyers at Prince Rupert at that time? A. Yes.

Q. When you take delivery at sea you pay one cent less; is that right? A. No, we pay one cent less than the advance price.

Q. What do you mean by that? A. In the operations at Prince Rupert we have two classes of fishermen, the men that deliver to these plants and the men that deliver to Prince Rupert, the ice packers. To those men who bring their fish to Prince Rupert we pay one cent more than the price at the camps.

Q. I think we said exactly the same thing, only we turned it around. I will go on: "After all the fish has been sold the cost of the selling, shipping, processing, administration, packing and camp expense is averaged on a poundage basis and is deducted, and that total balance is returned to the fishermen on each grade and classification of fish." Now, you have sworn that that is so, Mr. Deane? A. That is our general policy, yes.

Q. We are not talking about general policy; we are talking about what you do. Do not let us qualify these things. You have sworn that is what you did. Now you say, "to the fishermen on each grade and classification of fish." Do you keep separate the realization on each species, on each grade of fish you handle? A. That is right, yes.

Q. You keep them separate? A. That is right.

Q. And how do you allocate these costs to these species and grades -- by taking your total cost for handling all your fish, or by taking your cost for handling that species and grade? A. Our costs are handled on all the fish.

Q. I see. Well, then, is your answer quite right? --

because you say that the costs of processing some were more than the costs of processing the others. That would hardly work out, would it? A. We work the price of our fish down to an f.o.b. price Prince Rupert. From that we deduct on an average poundage basis the costs of administration and the cost of packing and the costs of administering the camps.

Q. Mr. Deane, I have no doubt that you are trying to answer my question, but do let us try to talk about the same thing, because if we do not we are going to get confused. I suggest to you that unless your costs are allocated to the fish on each grade and species separately, then it is impossible that your statement that the total balance after the deducting of expenses of handling that grade is returned to the fisherman. Do you admit my statement is right, or do you say it is wrong? A. After we have made the deductions, all the price goes back to the fisherman. The costs of packing, administration, camp expense, are taken off, and the total balance is paid to the fisherman, with the exception of a small balance that we bring forward to balance off our accounts. They are taken into the operation the following year.

Q. Now, you have not answered my question; whether you have attempted to or not, I do not know. I have asked it twice. I am not going to ask it any more. Do you want to say anything further about it? Do you want to add to your answer? -- because you have not answered the question. Is that your total balance? Is that exact? That is the crux of it. Is that exact?

A. We take out depreciation and all the other expenses, and the total balance, possibly not in that one year, but in two or three years, is returned to the fisherman. That is, if there is a balance brought forward, it is brought into the next year's operations.

BY THE CHAIRMAN:

Q. Are you over on your general reserves now? A. No.

Q. In Appendix "A", or did you include that in your last statement? A. The general reserve we do not have a special set-up; I mean it is not an item that comes into our bookkeeping.

Q. That is part of the balance, is it not, in your hands, of course, and it is not paid out to your members. I am asking you if "total" is a correct and accurate statement; that is all. Is that what you have in mind, Mr. Locke?

MR. LOCKE: Yes, my Lord. I am also suggesting to him that it is absolutely impossible that the answer he has already made, when that was not allocated through expenses to each particular kind and grade of fish, could be right. It is mathematically impossible.

THE WITNESS: There are two operations involved here, it must be remembered. We hire a cannery to process our fish at so much a case. That is applicable to the fish. We work the costs down to f.o.b. cost at the dock and from that f.o.b. cost we deduct on a poundage basis the costs of packing, administration and camp expenses.

MR. LOCKE: I am not going to pursue that any further because the witness is apparently unable to answer the question. (To the witness):

Q. Now, Mr. Deane, one thing further before we go to the figures. Mr. Parker asked you this morning whether or not the Prince Rupert Co-operative Association bought the fish, and after some thought you said "no." Well now, in your statement, which I have seen, there are shown as assets in the years 1943 and 1944, and no doubt in other years, large inventories of fish, and you also show on the liabilities side large

liabilities of the co-operative to the fishermen, so I suggest to you that you are mistaken; that the co-operative does buy fish, because otherwise they could not be shown as its assets. But they are, and the purchase price that is payable to the fishermen is what you show on the liability side of your ledger. Is that not right? A. That is a matter of bookkeeping.

Q. No, it is not a matter of bookkeeping, it is a matter of substance, and it happens to be a matter of very considerable importance in what we are talking about. I am just going to ask this question twice. I asked it once, and I will ask it again. Does not the Prince Rupert Co-operative Association purchase the fish from its members? A. The members of the Prince Rupert Fishermen's Co-operative Association make an advance to themselves from their association on the fish.

Q. Is that your answer? A. That is my answer.

Q. And this money that you have shown as in the bank in your annual statement -- is that the property of the individual members? A. Yes, held in trust by the association for them.

Q. For the individual members? A. Yes, that is right.

Q. I see. Now, may I have the 1939 balance sheet, please? Would you look at this, Mr. Deane? On November 30, 1939, a balance sheet was prepared for the Prince Rupert Co-operative Association. I take this date, because that is the date that I took in the written statement that I made to the Board, 1939 to 1943. Now, will you see if you agree with me on these figures? These assets of the co-operative at that date were cash and inventories of fish on hand, shown as filed, \$64,634 -- I will omit the odd figures. Amounts owing on shares \$3,378. Is that right? A. Just a minute. Is that the Prince Rupert balance sheet you are dealing with?

Q. Well, what I was referring to is a certified copy of the balance sheet, that is a copy filed with the provincial government, which under our Act is evidence, as it is certified by the Registrar. It does not seem to agree with the balance sheet you have produced. I will have to do it this way. I will hand this to you, witness. I will put this in.

Certified copy of Balance Sheet, 1939,
filed as Exhibit No. 6.

Q. I am asking you, Mr. Deane, if the balance sheet of the Prince Rupert Co-operative Association, which you will see is certified by the Registrar of Companies, as at November 30, 1939, shows cash, accounts receivable, inventories of merchandise, \$64,634; amounts owing on shares, \$3,378; and then the fixed asset figures less depreciation, \$12,157; scows, \$4,320; automobiles, \$840, and miscellaneous assets to a total of \$86,631.55. I have invited you to look at this over my shoulder. Is that right? A. Yes, I see you have it there.

Q. And the liabilities as at that date, current, owing on automobiles, \$456. Is that right? A. Yes, that is what you have there.

Q.. And then there is the Einstross Loan Account and other items totalling \$48,658. Then there is the membership share capital \$13,800, and total reserves \$9,333.53, and total surplus in addition of \$14,839.43, so that the assets and liabilities balance. Look at that and see if you agree that the figures I put in are correct, because I want to file that.

MR. LOCKE: I may say this is evidence under the Evidence Act. It is a certified copy of the balance sheet received from the lower court. (To the witness):

Q. Now, take the 1943 balance sheet, please. That is the one we have on file with the Commission as an exhibit;

I filed it in January last. I do not think the members of the Commission need trouble themselves with that at the moment. Look at page 21, Mr. Deane, of the balance sheet of the Prince Rupert Co-operative Association for 1943, and is that right? That is four years after the previous one; does it show cash on hand and in the bank, and accounts receivable on Hickey charters -- that by the way is money owing you by some person who chartered one of your packers called the "Hickey"?

A. That is right.

Q. Customers ledger balance and inventories, total \$441,149.63? A. That is right.

Q. Owing by liver plant, \$1,154 -- I will omit the fractions; investments in Co-operative Wholesale Society of British Columbia, \$1,200. Is that right? A. Yes.

Q. Under the fixed assets which I wish to put in before depreciation, that gives the motor vessels and boat equipment at cost, \$38,752. Am I right? A. That is right.

Q. Turn over to the next page, please. Camp buildings before depreciation, \$10,173; right? A. Right.

Q. Camp equipment \$2,817? A. Yes.

Q. Store equipment \$5,134? A. Yes.

Q. Cannery equipment \$1,947: A. Yes.

Q. Office equipment \$2,992; and then you turn over to the automobiles, \$4,279? A. Yes.

Q. Then the Prince Rupert store and additions, \$20,859, before depreciation; is that right? A. That is right.

Q. And prepaid rent and insurance \$1,949? A. Yes.

MR. LOCKE: Now, Mr. Chairman, I state as a matter of arithmetic that that amounts to \$522,504. (To the witness):

Q. Look at the liabilities, please, here on page 21, current liabilities, \$54,786. Is that right? A. That is right.

Q. Bank loan, \$32,382; owing to fishermen, final settlement, \$175,148? A. Yes.

Q. Now, in the past there was no agreement in writing, no real and no oral contract between the co-operative and the fishermen, to pay them that money or any part of it; am I right? A. That is right. There wasn't anything in writing.

Q. My question is more extensive than that. Did I not put it rightly? A. There was a moral obligation to pay it.

Q. We will go on down the line. Loans payable on town building, \$3,549. Coupons outstanding, two items, total \$5,165? A. Yes.

Q. What are those, Mr. Deane? What are those coupons? A. They are the same or something similar to what the canneries use on the Pacific coast. They are used by the fishermen to carry around with them when they receive the advance payments for the fish. They can have either coupons or cash, whatever they wish. It is something used generally all through the Pacific coast.

Q. You mean these coupons can be cashed at your stores? A. Yes.

Q. I see. The next item is dividends payable, 1938 to 1942, \$53,727; is that right? A. That is right.

Q. What is that? A. Those are the purchase savings in the concern.

Q. Declared? A. That is right.

Q. But not paid? A. That is right. They are in the revolving door fund.

Q. I do not see the revolving door there. I do not see the three-year period, 1938 to 1942, I mean. A. They do not decrease right away. They are declared and the statement

issued. Those statements are cashed by the patrons. They will be decreased over a period of time.

Q. The next liability which I see is capital stock \$76,424. Is that right? A. That is right.

Q. As a matter of arithmetic that amounts to \$403,181. Now that shows a surplus, between \$522,000 odd and \$403,000 odd, of \$119,000 odd, and that is after deducting your capital stock. Where did the money come from? A. There is the amount in stores surplus for the period which have not been declared until the general meeting. That will come through on the next balance sheet, \$34,000.

Q. You say you have \$27,000 reserves held in suspense against fishing operations. I am asking you to account for \$119,000 odd surplus on capital stock. Where did you get the money? A. It is all there, if I can get a chance to segregate it.

Q. Well, you say it is all there. I have studied this rather diligently and I cannot find it. I think I know where it came from. I think it is money deducted by the co-operative from the moneys realized from the sales of fish, with the exception of part of this reserve from the store. Perhaps some was depreciation again. Where did the money come from?

A. As far as the depreciation on boats and camps is concerned, that has to come from the fishing. As to the surplus of \$34,000, that came from the stores operation. That has not been allocated yet to the patrons.

Q. There is a large amount of money in the account there, Mr. Deane, and I ask you for the third time, where did the money come from? A. From the members of the association.

Q. It came from them, but how did it come from them? A. From their dealings with the association.

Q. No, that cannot be so, because we have deducted the amount of all that they advanced. I have deducted the capital stock. I am asking you again to account for that \$119,000 in money. A. I would have to go through it to get it. I would have to get out the individual points and the individual amounts to answer that.

Q. The answer is that for the moment you cannot account for it. Is that right? A. Not until I get the sheets.

Q. You have made a statement that the total balance was returned to the fishermen after these expenses were deducted. I am asking you this question and suggesting that you are quite wrong on that. There is a lot of tax free money in there which the Prince Rupert Co-operative Association is holding out of these moneys which you say belong to the fishermen, and which I say belong to the association. Well, we will go on. Now, the Prince Rupert Co-operative Association, in addition to running the store and buying and selling fish on behalf of its members -- if you want to put it that way -- runs a fish oil department. Am I right in saying that is not a separate organization? It is not a separate co-operative? A. It is a separate department of the same organization.

Q. This is page 31 of the 1943 report. The report of the auditor is page 31, and the balance sheet is at page 33. It is in the exhibit that is attached to my submission. You can follow what I am asking. Now, in this balance sheet at page 33 it is headed "Prince Rupert Fishermen's Co-operative Association, Fish Oil Department, balance sheet," and it is set up as if this was a different organization with a capital stock of its own. Is that right? A. Yes, we have the combined balance sheet shown.

Q. There are not two co-operatives, just one? A. Yes.

Q. Check me on this, and see if I am right. As of October 31, 1943, you had cash in the bank \$54,615, accounts receivable fishermen's ledger, \$47,905, whatever that means, and inventories of oil, \$198,452, making a total of \$302,358.72?

A. That is right.

Q. Inventory of containers, \$3,425? A. Yes.

Q. Certain fixed assets, without depreciation, buildings \$200, machinery \$11,119, plant equipment \$5,425, laboratory \$2,783, office equipment \$1,659 and co-operative library \$365; is that right? A. Yes.

Q. And prepaid charges for insurance, wages and sundry, \$2,574? A. Yes.

Q. As a matter of arithmetic that totals \$329,908. Now for your liabilities. You show current \$10,143; is that right? A. Yes.

Q. Prince Rupert Co-operative Association \$1,154.

A. That is the amount which they show there. This is offsetting it.

Q. Overdraft, \$2,168? A. Yes.

Q. Halibut overage fund, \$10,500; is that right? A. Yes.

Q. Owing to fishermen \$254,171, and capital stock \$24,395; is that right? A. Yes, that is right.

Q. That added together is \$313,532. Now, you say you have a reserve of \$11,638, which I have not reckoned as a liability, but I have reckoned the capital stock as a liability, and there is a difference of \$16,376. Where did that money come from? You say that you gave the fishermen back the total amount that you realized on the fish that you bought from them or handled for them. If so, where did that money come from?

A. With the addition of the surplus reserves \$11,638 and

depreciation I think you will get that thing to balance. The depreciations have been taken off from the period.

Q. You think this might be the reserves and the depreciation? A. It should be, yes.

Q. As I understand it you cannot answer my first question; if I tell you that those sums added together, the surplus on the fish department and the store department and the fish oil department, amounts to \$135,600, I invite you to explain to this Commission where the money came from. It is a surplus on your capital stock and on your liabilities. Now, we will turn to the statement for 1944. That is on page 14. Look at your liabilities. You need not spend much time on this. It is a matter of arithmetic. You have current liabilities \$119,009, fish oil department \$4,052, loans payable and interest town building \$13,613, bond issue and interest \$27,823, dividends payable \$74,383, coupons outstanding \$3,075, and so on. Now I make the statement that there is a difference here again of \$121,419, and that is money taken from here to buy assets which are now the property of the Prince Rupert Co-operative Association and used for the benefit of the members. Where did the money come from? A. From the reserves and surplus, \$15,000 --

Q. Now, if you can answer it, let us have it. That leaves \$106,000? A. The reserve of \$34,000, the surplus of \$15,000, net margin is \$18,000 -- that is the net margin over the operations of the store and town building, which are not allocated to the surplus for the period of operation in 1944, and depreciation.

Q. Do you think that accounts for the difference? A. Well, I could add it up and it comes to \$121,000. That is going to make it.

Q. What did you say? A. \$121,000. I think it makes it.

Q. Is this what you are saying, that the total of depreciation and the various reserve accounts which you have, there are seven or eight, that is in addition to the legal reserve authorized by Section 13 of the Co-operative Association Act, and by some allocated money from your store -- that is where the money came from to buy these assets? Is that what you are saying? A. Yes, that is where it is.

Q. That is where it came from? A. Yes.

Q. Now, Mr. Deane, in your 1943 statement for the fish oil department there appears an account that I have not seen before: halibut overage account, \$10,500. What is that -- a loan? A. That is a liability of the fish oil department.

Q. And what is the halibut overage fund? A. Do you want me to give a full explanation of that?

Q. Yes. A. The governments of Canada and the United States about early 1930 formed an international agreement respecting the halibut fisheries on the Pacific coast and set a control on the operation of these halibut fisheries. A commission was formed and it divided the coast into three areas, one up to Cape Flattery, two the British Columbia coast and the Alaskan panhandle up to Cape Spencer, and three the Gulf of Alaska and the Aleutian Islands. The commission set certain quotas to be taken out in each of these areas each year. The Halibut Fishermen's Union and the Boat Owners' Association of British Columbia and the Union and Boat Owners' Association of the United States came to an agreement whereby they would allocate a certain quota of halibut per man per trip in area two and area three. It was then found that if the whole fleet went out and caught up these quotas as fast as they could,

they would have enough fish in a very short time, and consequently they agreed among themselves to have a lay-off period between trips. When these vessels came in with their quota, sometimes they had more than their quota. If they did, then they would have to take a certain number of extra days lay-off. If they sold their quota and received payment, if they wanted to take the minimum lay-off they turned this money over and they started an overage fund. That grew until it reached \$15,000.

Q. You hold the money? A. Held in trust by the Deepsea Fishermen's Union Halibut Boat Owners Association. Never at any time could they find a basis on which to pay this money back to the fishermen, because the fisherman that took his lay-off was just as much entitled to it as was the fisherman who turned it in to the overage account. This matter was dealt with by the two organizations and they jointly loaned this to the Prince Rupert Fishermen's Co-operative Association in 1941, when they set up the liver oils department, and that was the source, with the exception of \$4,500, for the setting up of that department; that \$4,500 they deducted in share capital on a one per cent deduction which they had taken off for two years previous. That is the fund from which we started the halibut oils operation.

Q. So it was borrowed from this fund that belonged to the boat owners and so on? A. Yes.

Q. I asked that because I did not know what it was. I see in the 1944 account for the first time - suspense. What was the purpose of designating it suspense account? A. In 1943.

Q. It is on page 14 and says \$230,944. What was the purpose of calling it suspense account? A. As at October 31,

which is the end of the fiscal year, we had a quantity of fish in storage, and there would be expenses that we did not know at the time, and so it was put into a suspense account to be settled when the charges came forward.

Q. That is the same account as in previous years, shown as owing to fishermen? A. Yes.

Q. I would like to turn to the matter of the 1944 contract. Now, as I understand it you have said that until 1944 there was no contract in writing between the Prince Rupert Co-operative Association and its members? A. With the exception of 1936.

Q. Do you say there was one that year? A. Yes.

Q. Have you got it? A. Not here.

Q. Then it will not help us very much. I see this on page 2: "In the case of the association handling halibut, cod and other flat fish for the producer, any surpluses occurring over and above the market price paid to the fishermen less operating expenses, reserves, etc., shall be credited to the producers of such fish." Now, up to this time, Mr. Deane, you have said that there was no written obligation of any kind obligating the fishermen's association to pay the fishermen anything of the surplus over what they got when they delivered the fish. Is this contract the only right that existed up to date from 1936 between the association and its members, the contract on liver that you mentioned this morning? That is the total of the contract to deliver fish and other products. Where is the contract on liver? A. That is one you asked me to get.

Q. Is it separate from this? A. No, that is in now; that embodies the liver.

Q. I am sorry I did not understand you. You say that

in 1936 there was a contract made between the association and the members, of which you have not a copy. Will you get one and send it to me within two weeks? A. Yes.

Q. Now, up to 1944 there was no other contract between the association and its members as to the price that would be paid for fish, except the contract for 1944 which you produced this morning? A. There was a liver contract in 1941 for two years.

Q. Have you got that? A. No.

Q. Where is it? A. It is at Prince Rupert.

Q. I see. Would you hazard a guess as to what is covered by the expression "etc."? A. That would be the costs of operation.

Q. Now, in regard to your stores, you have done two or three million dollars' worth of business in Prince Rupert store; isn't that right? A. I would not say that much.

Q. You did \$450,000 or \$500,000 worth last year?
A. Yes.

Q. And about the same the year before? A. Well, several million, yes.

Q. And never at any time gave to your customers any contract obligating yourselves to return to them anything over and above the actual cost of the goods? A. That is right.

Q. But in March of this year you did issue these, did you not? A. Yes, that is right.

Q. Is this the first purchase savings certificate that you did issue? A. That is for what year?

Q. 1941? A. Oh, no.

THE CHAIRMAN: What is this?

MR. LOCKE: It is headed "Purchase Savings Certificate,"

and is issued by the Prince Rupert Fishermen's Co-operative Association. (To the witness):

Q. This was issued by your store? A. That is right.

MR. LOCKE: I will put it in.

Savings Certificate filed
as Exhibit No. 7.

BY MR. LOCKE:

Q. Did you ever issue these before, in the previous years? A. From 1938, yes.

Q. From 1938? A. I should say for the years of 1938 on.

Q. When did you issue them for the year 1938 -- in 1943?

A. 1941 or 1942, I forget -- three years afterwards.

Q. Now, that is issued both to your members and non-members? A. That is correct, yes.

Q. In figuring the amount of your purchase savings did you figure on your stores and service stations together? Did you throw their operations in all together? A. That is correct.

Q. So that if there is a loss in one store it is made up by the profit from a profitable store? A. It averages out, yes.

Q. So that a person who buys something in your store at Prince Rupert, when you choose to give him something, gets less if there is a loss in the store at Massett or somewhere else? A. Yes, it could be that way. We average the whole thing.

Q. Now, how, Mr. Deane, have you explained to the Income Tax Department that you are entitled to the benefit of Section 4(p) of the Income Tax Act in respect to your store operation? You sent me a copy of some letters which I got a week ago on Saturday, but some correspondence is only one way. There is a letter but no answer. The Act says that you can purchase supplies and equipment for the use of your members,

and you are under an obligation to turn such supplies and equipment over to them at cost, plus the necessary expenses and reserves. How have you satisfied the Income Tax branch in view of the ordinance that you fall within that classification?

A. We gave them a copy of the balance sheet each year when we filed the income tax return, and the whole thing is open to them.

Q. Is that your full answer? A. As far as the correspondence between ourselves and the Income Tax Department is concerned, it has merely to do with the percentage of non-member business in relationship to the member business.

Q. And have you told them in your letters that you are under an obligation to return --

MR. PARKER: Are we not going a little far afield for the record?

BY MR. LOCKE:

Q. Would you look at this, witness? Is this the balance sheet for 1944 of the Kyuquot Trollers Association? A. Something like a copy of it. It is similar.

Q. Is this the exact document that you sent to me, please? -- because I want to put it in. A. Yes, that is the one.

MR. LOCKE: Since this witness does not know about this association I will rely on that balance sheet. I will put this in as an exhibit.

Kyuquot Trollers Co-operative
Association balance sheet filed
as Exhibit No.8.

BY MR. LOCKE:

Q. Now, you are also president of the Federation of Co-operative Associations? A. I am the manager.

Q. The manager, yes. Is this the contract between the

United Fishermen's Co-operative Society and their members for the year 1944?

MR. FRANCIS: Excuse me; I would like to clear up a point. This last document that was filed, does it have to do with Kyuquot?

MR. LOCKE: Yes, I got that from Mr. Deane. He gave it to me.

MR. FRANCIS: I do not know that Mr. Deane could establish this as being the statement --

THE WITNESS: Well, that is the one I got from there, and I sent him a copy.

MR. FRANCIS: The request should never have been made with regard to Kyuquot.

THE CHAIRMAN: Technically, no, but the sheet is here.

MR. FRANCIS: It does not prove anything.

THE CHAIRMAN: No.

MR. LOCKE: It is a balance sheet of a member of the Prince Rupert Co-operatives. (To the witness):

Q. Is that right, Mr. Deane? Is that the contract of the United Fishermen's Co-operative for the year 1944? A. I would have to read it through. I have not a copy of it here to check it.

Q. Do you know whether it is or not? Well, will you take it and read it through, and if you find that it is a copy of the contract, give it to Mr. Francis and I will ask him to be good enough to file it. A. Yes.

Q. Similarly, is this a copy of the current agreement between the United Fishermen's Co-operative and the Vessel Owners Association? You need not read it now. You can do the same with it. A. This thing has been changed recently.

Q. Now, in the rules of your association which have been

filed, the association may redeem any of its shares by repaying the amount paid on them? A. That is correct.

Q. Does your association make profits, Mr. Deane?

A. No.

Q. Your rule 65 reads this way: "The directors shall, before recommending any dividend set aside out of the profits of the association, in accordance with the Act, such sum as they think proper, and not being less than ten per centum of the net surplus, towards the reserve fund, which shall be applicable for meeting contingencies." Were your reserve funds set up under that rule? A. The word "profit" is a misnomer from the British Co-operative Association Act.

Q. I said, are your surplus accounts set up under that rule? A. Yes.

Q. Now, as part of your accounts, I see that a considerable surplus is earnings of the packers. You have about \$150,000 invested in packers and camps and things of that kind. How do the packers earn money? A. By chartering them.

Q. Is that reported as income? A. No.

Q. I see. I notice that in your rules, Mr. Deane, you say that no dividends were paid on your shares -- A. Before you go on, in regard to the packers I might state that the earnings of the packers are used to keep them in operation, such as engine repairs, overhaul and one thing and another. It is merely used to keep up the boats.

Q. Yes, I see. A. That offsets our expenses.

Q. Are there other earnings of the packers, except charters? A. No, there would not be.

Q. There are considerable amounts of money shown there. It is all charter money? A. Yes, the earnings are gross earnings. Sometimes we charter our packers, boat, crew and

all together, and we pay the expenses of the crew and the fuel so the actual charter money to the packers is considerably less than what is shown in the balance sheet.

Q. If a joint stock company did get charter money, I assure you that they would have to show that on their receipts and pay income tax.

MR. PARKER: That may be a statement of law, but perhaps the witness does know whether that is right or wrong.

MR. LOCKE: I do not think that is a proper objection.

THE CHAIRMAN: The witness can answer if he can.

MR. FRANCIS: If any statement is to be made as to what a joint stock company would do, let us have a witness to support that statement.

MR. LOCKE: I will now ask the question. I have only asked half of it.

MR. PARKER: You did not ask a question; you made a statement of law.

BY MR. LOCKE:

Q. If you do not want to answer the question say so. If a joint stock company owned packers and got charter money, the money has to be shown as part of its income in its accounts. Can you suggest any reason why a co-operative association should be treated differently? Is there any objection to that?

MR. PARKER: That is a statement of law.

THE CHAIRMAN: You can answer that, Mr. Deane, if you wish.

THE WITNESS: I do not wish to answer.

BY MR. LOCKE:

Q. Now, Mr. Deane, I notice that in your brief you say that the co-operative association does not pay dividends on its shares; but in fact is this not the result as shown by

the operation of the Prince Rupert Co-operative Association. That while paying no dividends, they are, by setting up a variety of reserves accounts, and by depreciation accounts, acquiring a large amount of plant and equipment, all out of tax free money? Is that not the situation? A. Depreciations are allowable by law, and the Income Tax Department allows joint stock companies depreciation --

Q. The conclusion is that you do not know the answer; that is, you do not want to know any more than you just now said. Isn't the situation that while paying no dividends on shares you have acquired large amounts of plant and equipment, the benefit of which enures to you and your members, out of tax free money? A. I do not care to answer that, either.

MR. LOCKE: That is all the questions I have to ask. I will not be here at the conclusion of these matters and I would ask leave to file a written argument.

THE CHAIRMAN: We gave that option to anybody who wished to exercise it.

MR. FRANCIS: We will be supplied with copies of it?

THE CHAIRMAN: Certainly Mr. Locke will exchange with you.

MR. LOCKE: That is all. Thank you.

MR. FRANCIS: I have one or two questions to ask.

THE CHAIRMAN: Yes.

BY MR. FRANCIS:

Q. Mr. Deane, does your association engage a certified public accountant to audit your books each year? A. That is correct.

Q. Some reference has been made by my learned friend about tax free surplus, or I think the word "profits" was used. Have you at all times supplied to the Income Tax Department all the information sought with regard to your association?

A. That is correct; all that was asked for.

Q. I understood from your evidence this morning that you have at all times filed income tax returns? A. That is correct.

Q. And I understood your answer to a question by Commander Vaughan this morning, that you furnished the information return requested by the department or required by law, with regard to your members' income? A. That is correct.

Q. Now, with regard to the clause in the brief, I think on page 7 under the heading of marketing, to which my learned friend has referred, the paragraph commences: "The principles followed in marketing the products of the members are as follows. Approximately sixty to eighty per cent of the market valuation of fish produced by the salmon trollers is made to them at the time of delivery." I understood you to say this morning in answer to a question by Mr. Parker -- I think these were your words, "that the members take the view that they own the assets"; I took a note. I believe that is what you said? A. Yes.

Q. That with regard to your association the members took the view that they owned the assets? A. That is correct.

Q. Then I direct your attention to the middle paragraph on marketing: "The total balance is returned to the fishermen." Do you say that? A. Yes.

Q. Some reference has been made to that. I notice you do not say return in cash. In what way is it returned -- all in cash, partly in cash, or how? A. Share capital and revolving funds.

Q. Yes, but that does not mean paid out in cash?

A. That is correct.

Q. Now, take the \$119,000 referred to by my learned friend. There is an item I think you will find in there of depreciation in round figures of \$30,000 and suspense account \$14,000? A. Yes, that is in 1943.

Q. Yes. Reserve item \$27,000. Those I suggest should come out of the \$119,000 referred to. They make a total of \$71,000; I think that is correct. Since the question was raised, are you able after further examination to account for the balance? A. I would have to check into it and work it out.

Q. Yes. Have these statements been available to the Income Tax Department each year? A. Yes.

Q. My learned friend Mr. Parker asked if you had an obligation to accept fish from your members in the point of obligation on you to accept fish from your members prior to this agreement in 1944. Now your answer I believe was no. Did your association ever at any time refuse to accept fish from your members during that period? A. No.

BY THE CHAIRMAN:

Q. But they were not obligated to supply you with their whole catch at any time? A. No.

BY MR. FRANCIS:

Q. And it was not binding on you to accept it, but you did accept it, is that correct? A. Yes, that is correct.

Q. One other question. In your opinion has the existence of the Prince Rupert Fishermen's Co-operative Association resulted in an increase of price to the fishermen who are not in the co-operative and fish in that area? A. Yes, I am sure of that.

BY MR. ARNASON:

Q. Mr. Deane, just for further clarification, at the

bottom of page 11 you refer to the existence of what you term spurious co-operatives. A. That is correct.

Q. And you discussed this matter with the Chairman this morning. Now at the end of the paragraph you say: "We are sure that all co-operators look forward to a definite line being drawn between what constitutes a true co-operative operation and one that does not." Is it your idea that a definition should be decided upon as to what constitutes a co-operative and that definition incorporated as part of the legislation under which co-operatives receive their charter? A. I think so, yes, I think we should look forward to that.

BY MR. NADEAU:

Q. Since there has been mention of the assets and liabilities of the association, do you think that the liabilities are liabilities of the association or of the members personally? A. According to law, as far as I understand it, the members are shareholders in the association, to the extent of the share capital that they have in the association. The association itself is a corporate body, and of course has to assume the liabilities.

Q. But in the particular case of your association, what would be your answer? A. I would say that the membership of the association had a liability to the extent of the share capital that they had invested in the association.

Q. It would be a limited liability? A. That is right.

BY THE CHAIRMAN:

Q. Is it right to say that they own the assets and are not liable for the debts? Do I understand that is what you mean to say? A. I was speaking of the membership of the association. The association has certain assets and is a

corporate body, and as such it has certain liabilities. It would deal with those as a corporate body.

MR. LOCKE: If I might ask this question it might clear it up: (To the witness):

Q. If the association could not meet its liabilities and became bankrupt, who goes broke, the association or all the members? A. The association, of course.

BY THE CHAIRMAN:

Q. The association? A. That is right.

Q. If you were an unincorporated body that would not be so? A. No.

Q. Every member would have his whole assets involved in the bankruptcy? A. I think that is correct.

Q. So that is the main difference of incorporation, is it not? A. Yes.

BY MR. VAUGHAN:

Q. Would not these members if they own the assets be responsible for the liabilities? As long as there was any kind of surplus in the co-operative it would be all right; it would only be when there was a deficit they would be liable. Or does that mean they have no liability at all, although they have hundreds of thousands of assets? When I say no liabilities at all I am excepting the capital stock, which is almost negligible to the total. A. I am not very familiar with that point. In a case of bankruptcy I should imagine all the assets of the association plus the capital stock would be involved.

Q. That is what I mean. That would only be if there were a deficit. You think that the members would not be liable for it? Or could they take all their assets out and leave the liabilities to be paid? A. No, the assets first would go against the deficit, and if there were any further

liabilities it would come against them.

Q. In other words it is just the deficit for which they are not liable, other than the full liabilities? A. I think so.

BY MR. ELLIOTT:

Q. Has the Prince Rupert Co-operative Association ever paid too much on an initial payment? A. Never at any time.

THE CHAIRMAN: I think that is all, Mr. Deane.

Now, do we want to start on another brief, or shall we adjourn? We certainly cannot get through to-day.

MR. PARKER: We cannot get through.

MR. FRANCIS: We have the United Farmers Co-operative Company Limited. It is a short brief; we could get through with that.

MR. PARKER: We will not get through. The brief is short, but there are several exhibits.

MR. FRANCIS: Perhaps we can get through the brief itself and then adjourn.

THE CHAIRMAN: Yes, we can do that.

MR. FRANCIS: May I make a statement by way of explaining this? It is the wish of the Board of Directors of this organization that two of their directors appear before the Commission, for this reason. These two gentlemen have combined terms as president of about nearly fifteen years. One is familiar with the period of the last six or seven years, when the greatest development has taken place, and the other one has been a director for twenty years, and is familiar with the period prior to seven years ago. The suggestion we make is that the Vice-President, who was President for six years some time ago, read the brief, and that the other gentleman, who is more familiar with recent development,

appear for examination.

THE CHAIRMAN: And we have decided that we read the brief and then adjourn?

MR. FRANCIS: Very well.

WILLIAM A. AMOS,

Vice-President,
United Farmers Co-operative
Company Limited,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. Mr. Amos, what is your occupation? A. Farmer.

Q. You are, I understand, at the present time Vice-President of the United Farmers Co-operative Company Limited?

A. That is right.

Q. And you have been a director for about twenty years?

A. Yes.

Q. And you were formerly president for six or seven or eight years? A. Six years.

Q. Do you know whether or not this brief which you now propose to read was approved by the Board of Directors of the United Farmers Co-operative Company Limited? A. It was approved by a resolution of the Board.

Q. And were you and Mr. Robt. J. Scott instructed, and are you authorized, to present this brief to this Commission?

A. Also by a resolution of the Board.

Q. And Mr. Smith has just retired from quite a long period as President? A. That is right.

Q. And you and Mr. Smith will both be available to answer questions arising out of the brief? A. That is right.

MR. FRANCIS: Will you please proceed to read the brief, Mr. Amos?

THE WITNESS: The brief is as follows:

"1. INTRODUCTION.

"The United Farmers Co-operative Company Limited is the largest co-operative in Ontario, whether measured by volume of sales, savings, area served, number of shareholders or variety of business. It is increasingly recognized as the central co-operative wholesale serving local farm supply co-operatives and as the central marketing agency serving locals which market poultry, eggs, livestock, seeds, butter and other farm products. Its experienced personnel is widely called upon for leadership in various aspects of the farm co-operative and rural adult education movements. During its last fiscal year its total business volume exceeded \$20,000,000, and it returned more than \$100,000 in patronage returns to its shareholders and patrons.

"2. DEVELOPMENT

"Building on the experience gained after many years work with the Patrons of Industry, the Farmers' Association, and the Grange, representatives of Ontario farmers organized The United Farmers Co-operative Company in the winter of 1914.

"Binder twine was the commodity in which it made its first major business venture. Every manufacturer of binder twine in Canada refused to sell to the new Co-operative except at retail prices. Satisfactory arrangements were then made with the Belfast Rope Works in Ireland to secure supplies of twine and rope. This connection was maintained until the present war made safe transportation impossible.

"Between 1920 and 1928 seven creameries were purchased, and these continue to be operated by the company.

"The demand from farmers for better livestock marketing facilities led to the opening, in 1919, of a Livestock Branch.

This business grew to such an extent that for many years past the company has operated the largest livestock Commission Agency on the Toronto Union Stock Yards. In terms of dollar volume it is the largest department of the company. The various types of livestock are sold on consignment and the company receives only a fixed handling charge set by statute of the Dominion Government.

"In 1920 a seed department was established which has provided extensive services for local co-operatives and individual farmers in the cleaning and merchandising of quality clover and grass seeds.

"The United Farmers Co-operative Company acts as the wholesale purchaser of farm supplies for some 68 co-operatives and 44 unincorporated farmers' clubs. In each case the local co-operative or farmers' club has entered into a written contract with The United Farmers Co-operative Company under which the purchasing and distribution of such supplies is carried on. The present form of agreement is attached hereto as Exhibit 'A', and is entitled 'Affiliation Agreement for Co-operative Purchasing.' Nearly all the co-operatives and farmers' clubs which retail farm supplies in southern Ontario operate under this form of contract.

"Co-ordination of the co-operative farm supply business under this affiliation agreement has made it possible for The United Farmers Co-operative Company to move into the field of co-operative manufacturing under the 'Co-op' brand. Spearhead of the new development was the production of Co-op Feeds which was launched in 1940. From its inception this venture was successful and in many areas local co-operatives and clubs experienced a considerable expansion in volume, featuring Co-op Feeds.

"In 1941 The United Farmers Co-operative Company purchased a fertilizer plant at West Toronto, but for a good many years prior to this it distributed fertilizer ingredients to local farmer groups for home mixing. Operations have been extensive and successful, but proper co-operative distribution has been complicated and delayed by wartime zoning regulations of the Dominion Government.

"Through affiliation with National Co-operatives Inc., a federation of co-operative wholesalers in the United States and Canada, The United Farmers Co-operative Company has participated in the manufacture of Co-op Universal Milkers at Waukesha, Wis., and Co-op Shingles at Fanny Bay, B.C. In 1944 The United Farmers Co-operative Company purchased the Co-op Universal Milker assembly and distribution plant at Peterborough which serves all Canada. Plans are growing in Ontario for the distribution of this important equipment through affiliated co-operatives, and arrangements have been made for its distribution in the other provinces of Canada through their co-operative wholesales.

"An important development in the business of The United Farmers Co-operative Company was the inauguration in September, 1944, of the Co-op Premix Food Plant. This is a 100% co-operative arrangement for the manufacture of Premix concentrate by The United Farmers Co-operative Company, which is supplied only to affiliated co-operatives under an agreement, a copy of which is attached hereto as Exhibit 'B'. Affiliated Co operatives which take advantage of the plan must contribute to the financing of the Premix plant and through an advisory committee they have a voice in determining the policy under which the Premiz Plant is operated.

"The latest development in marketing is that on poultry

products. Recognizing the great need for better facilities in marketing poultry, The United Farmers Co-operative Company made special studies of modern mechanized line killing of poultry. As a result of this, three modern poultry processing plants have been established at Peterborough, Cayuga and Renfrew, each under the control of a local autonomous co-operative. The United Farmers Co-operative Company assisted each of these organizations with their planning and management and, in turn, the latter used The United Farmers Co-operative Company as their central marketing agency pursuant to written agreements, a copy of which is attached hereto as Exhibit 'C'.

"3. EDUCATION, AUDITING AND COUNSELLING

"Throughout the last thirty-one years The United Farmers Co-operative Company supported a continuous program of education on co-operative principles and practice. With the rapid advance in the growth of new local groups during the recent years, much emphasis has been placed on assisting such groups with advice on organization, incorporation, preparation of by-laws, enrolling membership and financing. Guidance is also given on actual business operation. With most affiliates this advice is general, providing information on sound business practices, the pitfalls to be avoided, and, in some cases, assisting them with their special problems, such as converting from a credit policy to a cash basis. With eight affiliated co-operatives, The United Farmers Co-operative Company has entered into supervision and management agreements and provides management advice in consultation with the local boards. The auditing and bookkeeping service of The United Farmers Co-operative Company is made available to all affiliates and during the past five years has materially assisted them in adopting proper bookkeeping and

financing methods. Central bookkeeping is done by The United Farmers Co-operative Company at their head office, for nineteen affiliates. In addition, auditing is done for twenty-two affiliates.

"4. OWNERSHIP AND CONTROL

"At the time of incorporation by Letters Patent under the Ontario Companies Act in 1914, the present Part XII, which provides specially for Co-operatives, had not been enacted. Consequently, the United Farmers Co-operative Company had to adopt the only basis of organization available. By a special Act of the Ontario legislature in 1943 the company was brought under the provisions of Part XII of the Companies Act.

"The original common stock of The United Farmers Co-operative Company was widely distributed and held, for the most part, by individuals. In later years an attempt has been made to provide for control of the company more generally by the affiliated co-operatives which it serves. Provision for delegate voting as set out in By-law Number Seven has been an important factor in this effort. Although the control legally rests with individual shareholders scattered all over the province, the annual meeting is in fact attended mainly by people from the local affiliated co-operatives. In 1943, out of 221 registrations at the annual meeting, 79 were delegate shareholders from local co-operatives, pursuant to By-law Number Seven, and in 1944, out of 320 registrations, 170 were delegate shareholders.

"5. PRESENT SITUATION AS TO TAXATION

"The United Farmers Co-operative Company pays all the ordinary municipal, provincial and dominion taxes. In determining income and excess profits taxes it has deducted from its gross income the patronage returns paid to affiliated

co-operatives under the Affiliation Agreement, Exhibit 'A'. Substantial patronage returns have also been paid to cream patrons since the year 1923, with the exception of the years 1932-36 and 1939-40, when none were earned; and some patronage returns have been paid to egg patrons. Shareholders have never been paid more than the equivalent of reasonable interest on the capital they have provided. Income and excess profits taxes have been paid on the income remaining after payment of the patronage returns. Exhibit 'D' attached is a summary showing the distribution of earnings for the past ten years together with the amount of income taxes paid by the Co-operative."

May I there, Mr. Chairman and members of the Commission, draw your attention to Exhibit "D" which shows that during these years the United Farmers Co-operative Company Limited paid in income taxes \$182,379.02.

"All of which is respectfully submitted."

THE CHAIRMAN: Then we will adjourn now and go on tomorrow morning.

---The Commission adjourned until Tuesday, April 10, 1945, at 10 a.m.

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